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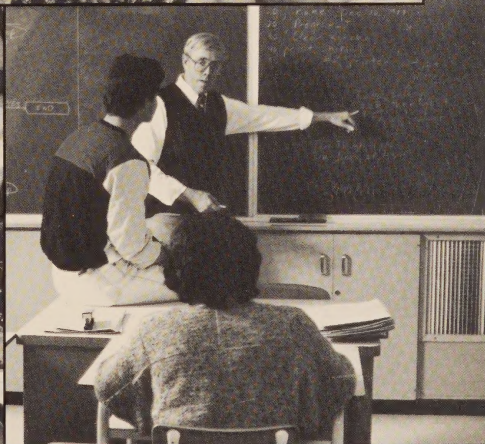
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OFFICE OF THE PROVINCIAL AUDITOR

1990 ANNUAL REPORT



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5. Ministry of Transportation



OFFICE OF THE PROVINCIAL AUDITOR

To the Honourable
Speaker of the Assembly
Province of Ontario

I am pleased to transmit my report covering audits completed through August 31, 1990, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 27, 1990.

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ISSN 0843-4050

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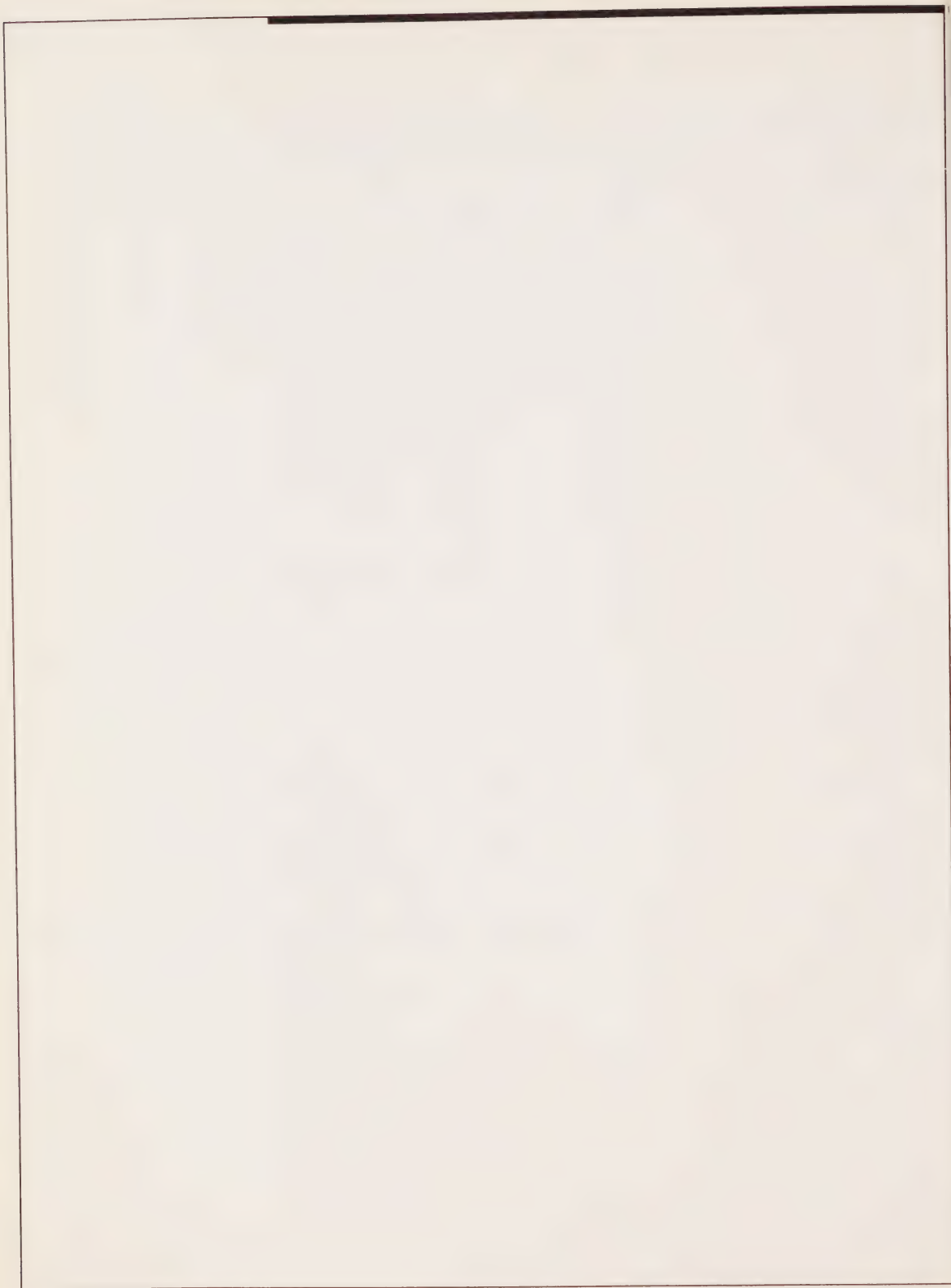
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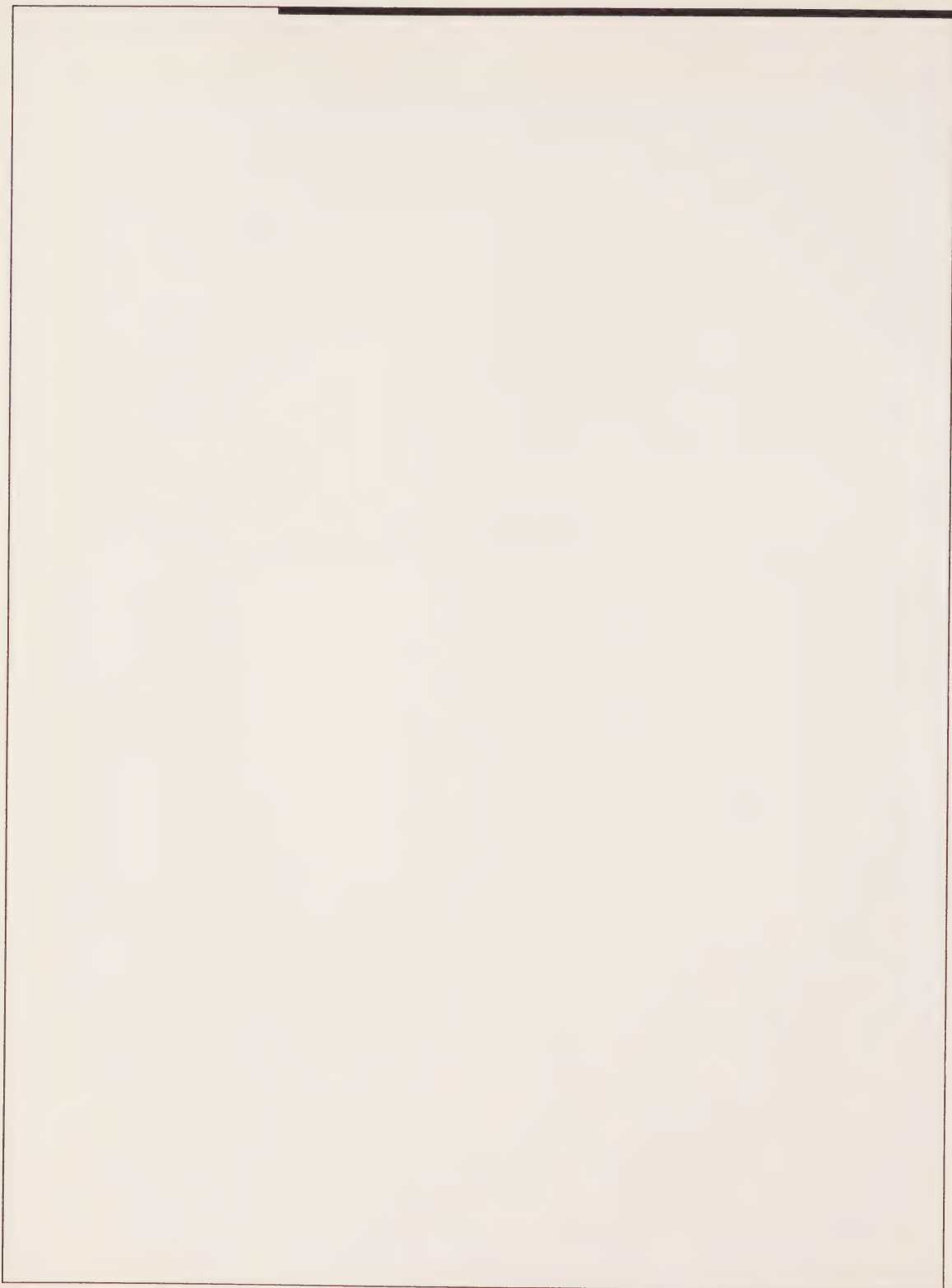
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CHAPTER

1

MATTERS OF SPECIAL INTEREST



CHAPTER 1

MATTERS OF SPECIAL INTEREST

1.1

Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1990 totalled \$41.7 billion and \$41.6 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of Government preclude an audit of all operations on an annual basis. Accordingly, each year, the Office audits a selection of programs and systems that individually expend over \$40 million annually, so that over a five-year period management's administration of all major operations is considered for review. This year, we audited 14 major programs/activities in 8 different ministries, primarily for value for money. As well, inspection audits of transfer payments to a university, a public hospital and two school boards were completed. Additionally, we carried out three cross-ministry audits: collection procedures, expenditure controls and vehicle fleet administration.

The Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Government policies, or submissions prepared by management for policy development, are not subject to audit. (Section 5.3)

1.2

Overall Assessment

In arriving at an overall assessment of the administrative performance of Government, we draw on a variety of sources. These sources include the audits of major programs and activities of ministries and agencies conducted during the current year, the body of knowledge that we as an Office have accumulated over our years of auditing Government administration, and our observations of the ongoing changes in the quality of administration.

During the 1980s there has been an increasing public demand for more and better Government services and also a growing concern about the escalation in Government expenditures and the size of the Province's debt.

In response to these pressures and concerns, the Government has had to find more efficient and effective ways to administer its programs and services. We believe that the Government has made significant headway in this challenge. However, as the various findings in the following chapters illustrate, there is still considerable room for improvement.

Nevertheless, our overall opinion continues to be that the Government of Ontario is being satisfactorily administered. More specifically, we believe that the quality of administration has been maintained at a 7 out of 10 level.

We received all the information and explanations required, and we wish to express our appreciation to those who were helpful and cooperative in this regard.

Matters of Special Interest

1.3

Basis of Reporting

This Report is provided in accordance with section 12(2) of the Audit Act. Under the Act, the Auditor is required to bring to the attention of the Legislative Assembly instances where he has observed significant deficiencies in Government administration.

To provide better support to the Assembly in its role of holding the Government accountable, we attempt to go beyond this basic requirement. We try to assess, where possible, how well a particular Government function is being administered and to support that assessment with specific observations and comments. This enables us to report observed matters in the context of a conclusion on the overall quality of administration in the audited activities.

There is a perception that in pursuing our mandate to report deficiencies, we place too little emphasis on the many areas where we have not observed any significant irregularities. That is to some extent an unavoidable consequence of our reporting requirements. However, we endeavour to report our findings in the proper context. Accordingly, we frequently draw attention to the positive examples of Government administration noted during our audits.

The Annual Report contains the most significant results of our examinations of selected ministries and agencies. Our choice is based not only on the significance of the dollar value involved but also on the importance of a particular matter or issue to the Legislature (Section 5.7). Some purely informational comments are also included in the Report because we believe the matters should be brought to the attention of the Assembly.

1.4

Report Synopsis

Introduction

The purpose of this section is to provide readers with an overview of the comments in Chapters 2 and 3. The summaries are very brief; readers are encouraged to refer to the complete text as indicated by the section references.

Update on Accountability for Transfer Payments

In 1988, the Management Board Secretariat issued a Directive on Transfer Payment Accountability to provide for the establishment of effective frameworks within which ministries could account for their management of public funds. All these accountability frameworks have now been submitted by the ministries and reviewed by the Secretariat.

Over the next three fiscal years, ministries' internal audit branches are to audit the frameworks for compliance with the Directive, and ministries are to report annually to the Secretariat on these audits. Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability. (Section 2.2)

Report Synopsis

The Estimates Review Process in Transition

In 1989, the Legislature amended the Standing Orders to provide for the establishment of a Standing Committee on Estimates. Five 1989/90 Estimates were reviewed by the Committee; 12 1990/91 Estimates were selected for review.

Management Board Secretariat examined the briefing books prepared by the ministries for the 1989/90 review and committed itself to reviewing the 1990/91 books with a view to improving and refining the guideline instructions for the 1991/92 Estimates process. (Section 2.3)

Government Deficits

Section 2.4 of last year's Report outlined the divergent views on the desirability of governments accumulating deficits. The purpose of this year's section is to provide an informational update. (Section 2.4)

Cross-ministry Audits

We audited the administration, across several ministries, of the collection of accounts receivable and the use of Government vehicles.

Collection of Accounts Receivable

In the ministries audited, collection efforts were less than satisfactory. Pursuing debtors was not a high priority. At the Central Collection Service Unit of the Ministry of Government Services, collection effort was generally commendable, in contrast to the Motor Vehicles Accident Claims Fund where procedures were ineffective. (Section 2.5)

Fleet Administration

The option of using a Government or personal vehicle was generally not based on economic considerations. Administration of vehicle maintenance was similarly deficient. (Section 2.6)

Inspection Audits

In 1990 we conducted inspection audits of one more hospital and university. We also extended our inspection activity to the school board community with audits of two school boards.

Centenary Hospital

We concluded that major improvements were required in the accounting records and related procedures for non-payroll expenditures, e.g. equipment and supplies. Accounting records and related procedures for payroll expenditures were satisfactory. (Section 2.7)

University of Toronto

We found reported enrolment data for the 1989 fiscal year to be accurate and in compliance with established guidelines. However, control over movable assets was unsatisfactory, and although policies and procedures to encourage

Matters of Special Interest

economical and competitive purchasing were sound they were often not followed. Payment practices were satisfactory. (Section 2.8)

Other Matters, University of Toronto, Ministry of Colleges and Universities

For at least the last ten years, the University's special funding arrangement has provided it with significantly more funding per Arts and Science student than other universities. Also, the claiming of students taking Commerce program prerequisite courses as Commerce students may be inequitable. (Section 2.9)

Lakehead Board of Education

Most of the weaknesses we found in our examination of financial management and control related to a failure to follow established policies and procedures. Our concerns included the administration of school transportation contracts, the budgeting process and the application of the school closure policy. (Section 2.11)

York Region Roman Catholic Separate School Board

High growth in recent years no doubt contributed to many of the deficiencies noted. We found, for example, that purchasing procedures were not adequate, in particular the awarding of school bus contracts. In addition, some Ministry grants were not spent for the purpose intended. (Section 2.12)

Financial Accountability Framework for Grants to School Boards, Ministry of Education

Sound plans developed for improving the financial accountability of school boards will not be effective without better co-ordination and monitoring by the Ministry. For example, reviews and audits of student enrolment and transportation data should be more consistent and productive.

Most school boards surveyed reported that they had adequate accountability arrangements between trustees and administrators.

We believe more commitment to the sharing of resources among boards is needed, as is attention to the under-utilization of schools and associated closure policies. (Section 3.6)

Central Common Services

Two of our audits related to services provided by the Ministry of Government Services to other Government ministries and agencies.

Toronto Development Centre

The Centre provided reliable computer processing services to its customers, but security measures to prevent unauthorized access to computer facilities were not sufficient. (Section 3.7)

Report Synopsis

Management of Land Acquisition and Capital Construction

In general we found all functions examined were satisfactorily administered. Within that context, however, some significant deficiencies were noted. In several instances, for example, assessments of work to be completed were inadequate. (Section 3.8)

Care Delivery Programs

This year, eight of our audits involved various types of care provided or funded by ministries and agencies. **Three of these were administered by the Ministry of Community and Social Services:**

Facilities for the Developmentally Handicapped

Two audits covered Ministry operated and Agency operated facilities. Our conclusions were essentially the same. In our opinion, the Ministry did not take adequate steps to ensure that funds were well spent or that proper care and services were delivered. (Sections 3.2 and 3.3)

Homes for the Aged

We concluded that Ministry procedures for monitoring the quality of care in these homes were inadequate. For example, inspection activity was infrequent and poorly documented. (Section 3.4)

Four of these audits examined Ministry of Health programs:

Nursing Home Services

We concluded that the procedures used by the Ministry to monitor the quality of care in nursing homes required significant improvement. The number and nature of cases selected for in-depth quality of care reviews, for example, were inadequate. Also, many complaints were not investigated on a timely basis. (Section 3.9)

Access to Extended Care Beds

There were significant delays in placing individuals in extended care beds. Guidelines for assessing the adequacy of the total supply of these beds had not been revised since 1972. (Section 3.10)

Home Care Assistance

Generally, Home Care was being provided economically, although there was scope for improvement in delivering certain aspects of assistance. For example, many services provided by nurses could be delegated to nursing assistants.

Home Care could play a more important role in the delivery of health care services throughout the Province. It was estimated that 15 to 30 per cent of hospital patients could be cared for at home. (Section 3.11)

Matters of Special Interest

OHIP Billings, Provider Services Branch

The Branch was adequately monitoring OHIP billings, but conditions inherent in the system reduced the effectiveness of monitoring procedures. For example, over the past few years the number of doctors and services has increased faster than the population. Also, there has been a trend towards higher fee services. (Section 3.13)

The eighth audit concerned the Ontario Cancer Treatment and Research Foundation:

Overseas Recruitment Expenditure

We concluded that much of the expenditure incurred to recruit radiation therapy technologists was either excessive or questionable. Additionally, advertising and promotional services were acquired without a competitive selection process. (Section 3.18)

Information Technology

Three audits conducted in ministries related to their management of computer resources.

Management Information Systems, Ministry of Correctional Services

For the most part, computer resources were acquired economically and used efficiently. However, computer software and sensitive data were not adequately protected from unauthorized access. (Section 3.5)

Information Technology Consultants, Ministry of Health

Overall, the Information and Systems Division adhered to Government policies and procedures in the acquisition of consulting services. However, its continued reliance on some consultants was uneconomic and in conflict with Management Board Directives. (Section 3.12)

Information Technology Purchases, Ministry of Intergovernmental Affairs

Most goods and services were purchased in accordance with Ministry and Government policy. However, we found several deficiencies in the planning and cost-benefit evaluations which preceded the purchase of information technology. (Section 3.14)

Other Audits

Ontario Provincial Police Field Operations and Quartermaster Stores, Ministry of the Solicitor General

While the assignment and utilization of field staff were satisfactory, there were opportunities for improvement. For example, time spent by officers on administrative duty could be reduced through increased use of civilian staff and a more efficient reporting system.

Reacting to Concerns

Quartermaster Stores procedures, in particular the security over weapons, had greatly improved since our previous audit in 1985. (Section 3.15)

Inspection Activity and Other Matters, Liquor Licence Board of Ontario

Inspection activity was less than satisfactory to ensure compliance by licensees with the Liquor Licence Act and Regulation. Inspectors, for example, spent only 20 per cent of their time on their primary role of inspection.

Collection procedures for licence fees were adequate overall; however, potential areas for increased revenues were identified. (Section 3.16)

Travel and Accommodation Costs, Office of the Assembly

Expenses of MPPs and committees were adequately supported, and claims were in accordance with entitlements or established policies. However, vehicle travel could have been more economical. (Section 3.17)

Safeguarding of Valuables, the Public Trustee of the Province of Ontario

Access to valuables in safekeeping was not adequately restricted. Valuables held in trust were missing and the police were investigating. (Section 3.19)

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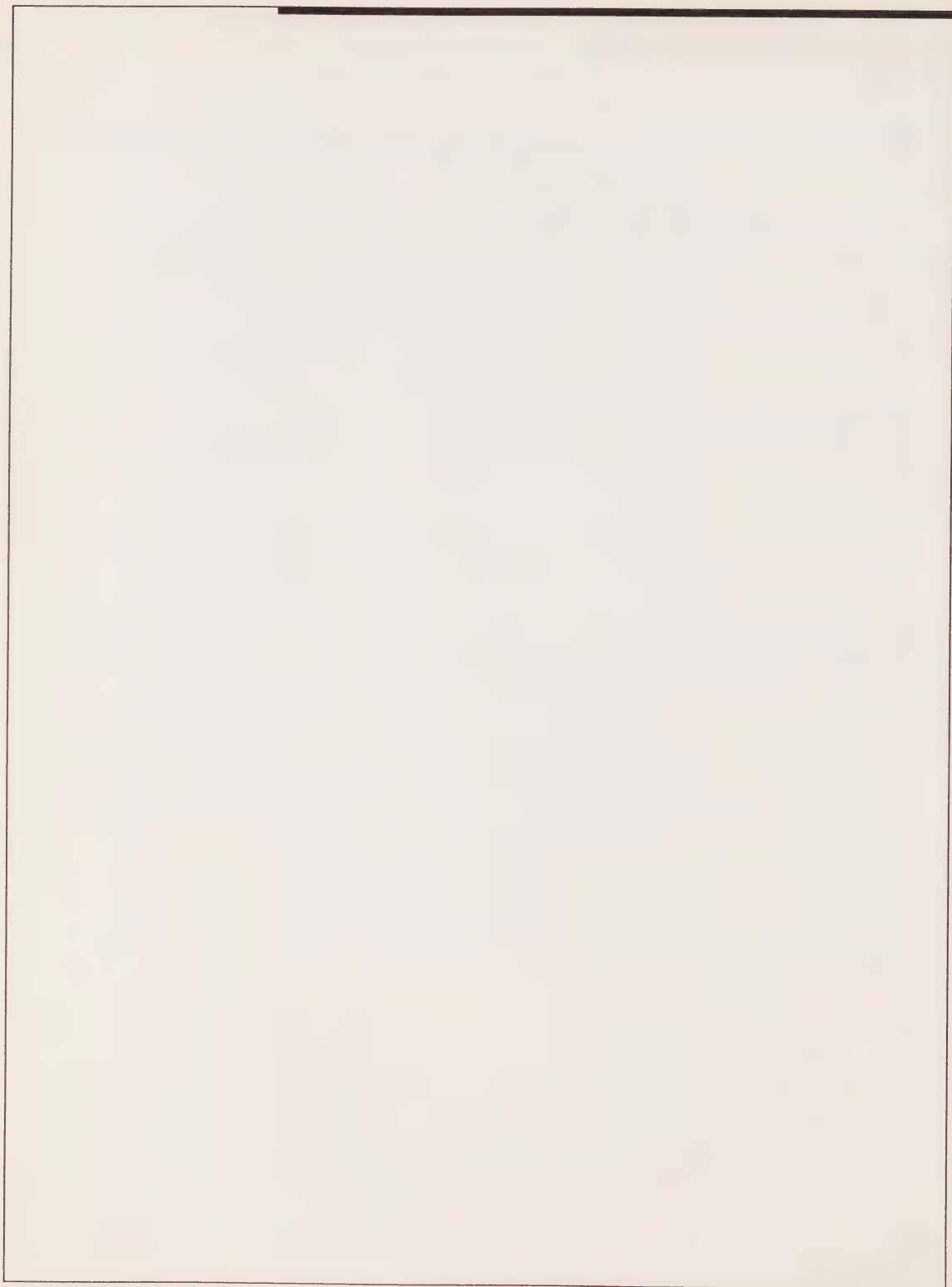
Reacting to Concerns

The Office of the Provincial Auditor can be contacted by anyone who has concerns about wasteful or inappropriate use of resources in the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or 1-800-668-8516, by facsimile (416) 324-7012 or by writing to :

Office of the Provincial Auditor,
Box 105, 20 Dundas Street West,
Toronto, Ontario.
M5G 2C2



CHAPTER

2

COMMENTS ON
CROSS-MINISTRY
AND SPECIAL AUDITS

CHAPTER 2

COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

2.1

Introduction

Comments contained in this segment of the Report result from cross-ministry and special audits. A list of all audits completed since our last Report is included in Exhibit 1.

2.2

Update on Accountability for Transfer Payments

INTRODUCTION

Transfer payments exceed 70 per cent of the annual Provincial expenditures. In light of the magnitude of such payments, we have been especially concerned with the need for improved accountability for the funds.

The Government directly controls transfer payments which are made to individuals, or to others such as physicians or pharmacists providing services to the public. In the 1990 fiscal year such payments amounted to \$8.1 billion, or approximately one quarter of total transfer payments of \$30.5 billion. However, the Government does not directly control the use, safeguarding or expenditure of the other three quarters of the funds, which represent transfer payments to intermediary organizations or bodies providing services to the public (e.g. hospitals, school boards, universities).

In our Annual Reports in the 1980s we included information on various accountability for transfer payment matters, and in this year's Report we update the status of the current initiatives.

DIRECTIVE ON TRANSFER PAYMENT ACCOUNTABILITY

The purpose of the Directive, issued in 1988 by the Management Board Secretariat (the Secretariat), is to establish an effective framework for transfer payment recipients to account for their management of public funds.

The mandatory requirements of the Directive involve an accountability process that must clearly set out the planned objectives and results that the recipient is to achieve with the transfer payments, and ensure that the recipient:

- understands or agrees with these objectives and results;
- reports the achievement of objectives and results on a timely basis; and
- takes corrective action when objectives and results are not being achieved.

The ministries are to ensure that accountability processes that meet the mandatory requirements of the Directive are in place and are maintained. The Secretariat is responsible for assisting ministries in the development and maintenance of accountability frameworks. The Secretariat co-ordinated the development of a companion Guideline, to assist the ministries in implementing the Directive, and requested ministries to develop a proposed accountability framework for each transfer payment program.

Comments on Cross-Ministry and Special Audits

ACCOUNTABILITY FRAMEWORKS - DEVELOPMENT, IMPLEMENTATION AND REVIEW

All accountability frameworks have now been submitted by the ministries and have been reviewed by the Secretariat. The submissions contained the key components of setting expectations (objectives and results), contracting (the understanding between the ministry and the transfer payment recipient), and reporting. In October 1989 the accountability frameworks relating to 21 of the largest transfer payment programs, representing approximately 80 per cent of total Provincial transfer payments, were approved by Cabinet.

In November 1989 the Secretariat requested ministries to have their internal audit branches, over the next three fiscal years (1991 to 1993), audit all transfer payment accountability frameworks for compliance with the Directive on Transfer Payment Accountability. In April 1990 the Secretariat issued an audit review guide for the Directive.

The Secretariat also requested ministries to report annually whether the Directive on Transfer Payment Accountability had been audited. The reports are to indicate any difficulties encountered in achieving compliance with the Directive, including any concerns with the effectiveness of the Directive. The first annual reports are due June 30, 1991 and are to be based on audit reports issued in the 1991 fiscal year. Through review of the annual reports the Secretariat will observe the progress of the ministries in auditing their accountability frameworks over the next three years. The Secretariat will report the results of this initiative to Cabinet.

An advisory group on transfer payment accountability, comprised of representatives from the Secretariat and ministries with significant transfer payments, provides continuing advice to the Secretariat on transfer payment accountability. The advisory group has identified several areas for attention and presently is concentrating on reporting requirements and methods.

OTHER ACCOUNTABILITY ASPECTS

In October 1989 the Secretariat and the Institute of Public Administration of Canada co-sponsored a forum on transfer payment accountability. Senior Provincial and transfer payment agency officials discussed the setting, and the meeting, of expectations. Generally, the speakers emphasized the importance of consultation in setting expectations, the need for effective joint planning mechanisms and clarity of roles and expectations.

The Municipal Audit Bureau (audits transfer payments to municipalities) has drafted guidelines relating to the establishment and administration of municipal transfer payment programs. The guidelines will provide support to persons drafting municipal grant legislation, assist administrators in improving the day-to-day processing of applications and claims, and enhance municipal transfer payment program compliance and accountability.

The Secretariat continues, through research and communication with ministry and other interested officials, to promote an improved understanding of, and better methods for, transfer payment accountability. For example, meetings with ministry officials involved in policy and planning are scheduled. This will

Accountability for Transfer Payments

provide an opportunity to identify methods used by ministries for building accountability requirements into the initial design and planning of transfer payment programs.

COMMENTARY

Enhancing transfer payment accountability is presently focused on the development and implementation of accountability frameworks. Although the process primarily involves improving and refining previously existing accountability conditions, it is still a ponderous task fraught with difficulties.

Complications can arise in trying to balance the Government's need for accountability with the recipient's preference for autonomy in the use of the transfer payments. To clearly define the expectations and the respective roles and responsibilities of the ministries/agencies and their transfer payment recipients requires considerable time and effort, understanding and compromise.

Standard expectations, uniformly applicable to all transfer payments, cannot be established because of the great diversity in the nature of the transfer payment programs and the accountability relationships between the ministries/agencies and their recipients. Realistic performance expectations, based on the conditions uniquely applicable to a particular transfer payment, must be agreed upon by the ministry/agency and the recipient.

Objectives and results must be clearly defined and mechanisms for funding approved. To provide accurate, timely and appropriate data to measure the achievement of expectations, accounting and information systems must be established or refined. Also, agreement must be reached on the corrective action to be taken when objectives and results are not met.

The ministries/agencies and their transfer payment recipients recognize that a continued commitment is required to achieve enhancements in accountability, and that diligence and perseverance over an extended period of time is necessary to effect a meaningful and auditable process.

Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability.

Comments on Cross-Ministry and Special Audits

2.3

The Estimates Review Process in Transition

PROCEDURAL CHANGES

Background

As mentioned in Section 2.3 of our 1989 Report, the Standing Orders of the Legislative Assembly (rules of the House) were amended on July 25, 1989 to effect major legislative reforms. One of these reforms was the revision of the Estimates review process which became effective October 10, 1989.

Under the new procedures all Estimates are referred to the newly established Standing Committee on Estimates, which is chaired by an opposition member. The Committee would normally consider the Estimates of not fewer than six and not more than twelve ministries/offices annually. The Estimates to be considered are selected in two rounds, with each of the three major political parties choosing one or two ministries/offices in each round. A maximum of 15 hours discussion time is allocated to each party in each of the two rounds.

Any Estimates not selected for consideration are deemed to be passed by the Committee, whereas the selected Estimates must be passed by the Committee and then be reported to the House by the third Thursday in November. A progressive feature of the new Estimates procedure is that Estimates briefing books provided to the Committee members must now include more detailed information such as growth rates, interim expenditure for the previous fiscal year, and an explanation of the programs and funding by particular item.

Estimates Review Activity

The Standing Committee on Estimates selected five 1989/90 Estimates for review: the Ministries of the Environment, Municipal Affairs and Transportation, and the Offices Responsible for Disabled Persons and Senior Citizens' Affairs.

Forty hours were allocated for the consideration of the 1989/90 Estimates. After considering the Estimates of the above ministries/offices for 23 hours, the Committee reported the Estimates to the House on November 16, 1989. On December 19, 1989 the House formally approved the granting of supply for each of these ministries/offices.

The Committee selected the 1990/91 Estimates of 12 ministries/offices for review. The Committee had completed the review of the Estimates of the Ministry of Natural Resources before its activities were ended by the dissolution of the Assembly on July 30, 1990.

IMPROVEMENTS IN ESTIMATES BRIEFING BOOKS

Following the 1989/90 Estimates reviews by the Committee, the Management Board Secretariat undertook to assess the adequacy of the guidelines for preparing the Estimates briefing books, in order to ensure that the informational requirements of the new Estimates procedure were addressed. In this regard, the

The Estimates Review Process

Secretariat examined the briefing books prepared by ministries/offices in support of their 1989/90 Estimates. The examination showed significant disparities in the style and content of the documents.

To ensure consistency in format and content and the disclosure of more meaningful information, revised general guidelines for the preparation of the 1990/91 Estimates briefing books were issued by the Secretariat in March 1990. Changes to the general guidelines included:

- . improved descriptions of the mandate, purpose or objectives of the Program or Activities within the Program;
- . a status report on initiatives under way for each major Activity;
- . financial analyses of Activities including explanations for significant expenditure changes;
- . a listing of major capital projects showing the funding allocation, timeframe, and expected results for each project.

The Secretariat has committed itself to a review of the 1990/91 Estimates briefing books, with a view to improving and refining the guideline instructions for the 1991/92 Estimates process.

COMMENTARY

The procedural changes made in the Estimates review process have been positive. However, there is still some difficulty being experienced in implementing the new procedures after so many years with the former procedures. It may take some time, therefore, to achieve the meaningful and effective scrutiny for which the new procedures were designed.

Comments on Cross-Ministry and Special Audits

2.4

Commentary on Government Deficits

INTRODUCTION

In Section 2.4 of our 1989 Report we reported on various factors associated with government deficits. The purpose of this year's section is to provide an informational update only.

DEFINITION

A government's deficit represents its excess of expenditure over revenue in any given year. Alternatively, a surplus represents the excess of revenue over expenditure. A government's accumulated deficit equals the total of annual deficits, less surpluses.

When government expenditures continue to exceed revenue, cash balances are drawn down and borrowing is required. All such borrowing constitutes a government's debt.

EFFECT OF DEFICITS

As described in last year's Report, there are divergent views on the desirability of deficits and accumulated deficits. However, there is general agreement on the need for governments to carefully monitor and control any deficit situation. Governments should, for example, be concerned that the growth in the accumulated deficit does not outpace the growth in the economy.

Such a situation would lead to greater borrowing by government and, over time, to a considerably higher debt level. This would necessitate an ever increasing percentage of a government's revenues to be earmarked for debt carrying charges (interest), thus making it more difficult to maintain existing levels of service or to introduce new spending programs.

A personal corollary may be made here. If an individual's economic growth (i.e. increase in income) does not keep pace with the growth of his/her debt, then the debt becomes increasingly difficult to manage.

The table below summarizes recent Ontario experience.

| | 1990 | 1989 |
|------------------------------|---------------|--------|
| | (\$ millions) | |
| Deficit/(Surplus) | (90) | 1,479 |
| Accumulated Deficit | 35,409 | 35,499 |
| Debt for Provincial Purposes | 39,256 | 39,014 |
| Interest on Debt | 4,284 | 4,032 |

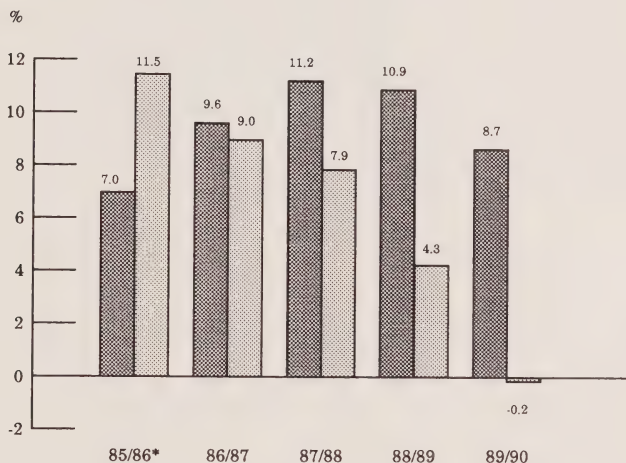
Government Deficits

PERFORMANCE INDICATORS

As is evident from the following indicators, Ontario is endeavouring to effectively manage its deficit position.

Ontario's recent economic growth (as measured by the growth in the gross domestic product [GDP]) continues to exceed the growth of the accumulated deficit.

COMPARATIVE GROWTH ONTARIO GDP AND ACCUMULATED DEFICIT 1985/86 to 1989/90



*Excluding 1985/86 extraordinary adjustments to accumulated deficit

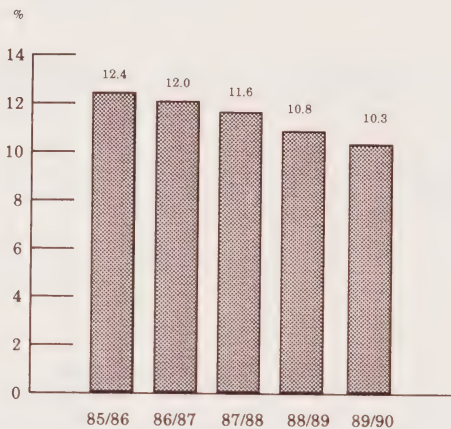
GDP

ACCUMULATED DEFICIT

Comments on Cross-Ministry and Special Audits

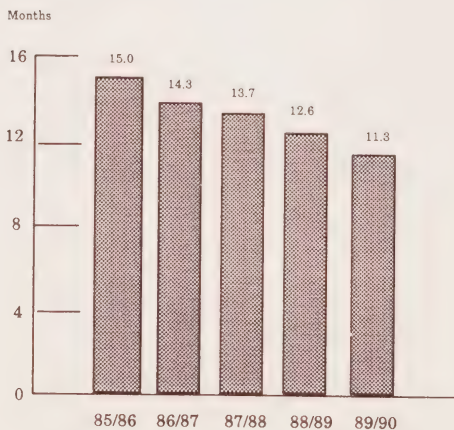
Debt interest as a percentage of revenue continues to decline.

**DEBT INTEREST AS A
PERCENT OF REVENUE
1985/86 to 1989/90**



The number of months of revenue to repay Ontario's debt also continues to decline.

**MONTHS OF REVENUE TO REPAY
ONTARIO'S DEBT
1985/86 to 1989/90**



Government Accounts Receivable

CREDIT RATING

Bond rating agencies in Canada and the United States develop bond rating scales for securities issued by various governments. The ratings vary from triple A for highly-rated investments to D for investments rated as low quality. Ontario continues to receive very high ratings, from double A to triple A.

For further comment on the deficit see Section 4.4.

2.5

Observations on Government Collections of Accounts Receivable

Total outstanding accounts receivable, excluding loans and advances, recorded in the Province's Public Accounts amounted to approximately \$1.1 billion at March 31, 1990.

SUMMARY

SCOPE AND OBJECTIVE

As part of our examination of accounts receivable write-offs at five ministries (see Section 4.6 of this Report), we also assessed whether collection efforts on overdue accounts were adequate and effective. In addition to these ministries (Agriculture and Food; Attorney General; Financial Institutions; Industry, Trade and Technology; Revenue), our audit assessed the activities of the Central Collection Service Unit of the Ministry of Government Services.

CONCLUSION AND FINDINGS

In the ministries audited, collection efforts were less than satisfactory. Pursuing debtors was not a high priority. In addition:

- At the Central Collection Service (CCS), while collection effort was generally commendable, some accounts were neglected.
- CCS had approximately 11,500 accounts totalling \$10.7 million for which no interest charges were accrued.
- The Motor Vehicle Accident Claims Fund (MVACF) was ineffective in collecting its delinquent accounts. Collection efforts were virtually discontinued six months after a debtor's driver's licence was suspended.
- The collectability of many accounts of the MVACF was questionable. Based on agreed upon repayment terms, many debts will not be fully repaid for 50 to 60 years.

BACKGROUND

Accounts receivable mainly represent amounts owing to the Province under various revenue-producing activities. These amounts are not included on the Province's Statement of Financial Position since they are not the result of cash transactions. In addition, certain loans treated as expenditures and considered recoverable grants are also considered as accounts receivable.

Comments on Cross-Ministry and Special Audits

Ministry responsibilities for controlling accounts receivable are covered in the Manual of the Office of the Treasury. The primary objective in controlling accounts receivable is to "maximize Provincial cash flows and to minimize losses due to uncollectability." Such accounts are to be "maintained under effective controls and the amounts owed are to be subjected to thorough and exhaustive collection efforts."

The Manual requires that all accounts receivable should be reviewed and followed up for collection at least every 30 days for a period of three months. Amounts outstanding beyond that period generally should be forwarded to the Central Collection Service at the Ministry of Government Services for further action.

COMMENTARY

TIMELY FOLLOW-UP AND BETTER COLLECTION EFFORTS NEEDED

In many cases, collection action was untimely or incomplete. We were informed by some ministries that collecting delinquent accounts receivable was not a high priority. Instead, resources are channelled to delivering their programs and only limited resources are used to collect accounts.

For example, at the Ministry of Industry, Trade and Technology, although the problem was not widespread, some defaulted loans were not acted upon in a timely manner:

- a) A company had its loan and accrued interest totalling \$116,000 called on May 16, 1988. Since no payment was received, the Ontario Development Corporation sent a registered letter on December 2, 1988 demanding payment within 15 days or legal action would be taken. At the time of our audit (October 1989), there was no further correspondence or documentation of collection efforts on this loan.

Prompt action increases the likelihood of collecting overdue accounts. We were advised that this file was subsequently sent to the Central Collection Service at the Ministry of Government Services.

- b) In another case, the Corporation lost \$648,000 while personal guarantees of \$400,000 existed. When a bank requested repayment of the loan and a receiver was appointed, the Corporation's Loan Administration Section recommended to the Legal Services Branch that personal guarantees be called along with its loan. While the Corporation's loan was called on September 1, 1988, no attempt was made to act on the personal guarantees. After the completion of our audit, the account was referred to the Central Collection Service which collected \$10,000.

Personal guarantees should be called at the same time as the loan is called. A long delay gives the guarantors time to arrange their finances in such a manner as to make collection difficult.

Government Accounts Receivable

CENTRAL COLLECTION SERVICE

Overview

Management Board directives state that the collection of delinquent accounts receivable is the responsibility of the Ministry of Government Services through its Central Collection Service Unit. The Unit's function is to:

- evaluate accounts which, following concerted efforts, ministries have been unsuccessful in collecting;
- utilize its expertise to maximize collection of debts owed to the Province; and
- return to ministries those accounts which are uncollectable and recommend write-off.

At July 31, 1989 the Unit was administering 33,000 accounts, totalling \$64.4 million. Of these, \$15.2 million had been referred to four private collection agencies and \$9.1 million had been referred to the Legal Branch of the Ministry of Government Services. The remaining \$40.1 million was being handled by the staff of the Unit.

For the year ended March 31, 1989, CCS spent \$1.4 million in administration costs to collect \$7.8 million from delinquent debtors. In addition, 2,300 accounts, totalling \$3.6 million, were recommended for write-off.

Collection Efforts Need Improvement

The Central Collection Service Unit estimates that approximately 50 per cent of its collections are made in the first six months after receiving the account from a ministry. Collection staff encourage repayment by initially contacting the debtor by telephone or mail.

In our opinion, **much of the Unit's collection success is due to the diligence of its staff. However, we noted some accounts where there was a lack of timely follow-up.** For example:

- a) One debtor owing approximately \$6,800 in rental arrears made a verbal commitment in January 1989 to make monthly repayments of \$100 starting in February 1989. Similarly, another debtor with an outstanding loan for approximately \$51,000 informed collection staff on March 15, 1989 that post-dated cheques were forthcoming. As of August 1989, no payments were made by either debtor and there were no further attempts to contact them.
- b) Another debtor informed the Collection Service that he would repay an outstanding Ontario Youth Venture Loan for approximately \$2,300 by June 1987. There was no follow-up on the account until October 1987, approximately four months later. No payments were ever received and the individual declared bankruptcy in March 1988.

Comments on Cross-Ministry and Special Audits

In October 1989, two additional collection staff were hired by the Central Collection Service. These were the only additional staff hired since 1985, despite a 75 per cent increase in the number of accounts handled by the Unit over the same period. The Unit has determined that an ideal number of accounts per staff member is 1,000 at any one time. This would give staff sufficient time to adequately pursue each account. We noted that on average, each of the 11 collection staff was responsible for approximately 1,700 accounts.

We were also concerned with delays in collection by the Ministry's Legal Branch of some accounts forwarded by the Central Collection Service. For example:

- a) An outstanding student loan for approximately \$6,300 was transferred to the Legal Branch on July 21, 1988. On September 13, the Legal Branch accepted a proposal from the debtor's solicitor for monthly repayments of \$50 to \$100. This was accepted because of the debtor's financial situation. Although no repayments were made, no further attempt was made to contact the debtor until July 6, 1989, approximately nine months later. At that time, the Legal Branch was unable to locate this individual.
- b) An outstanding Youth Venture Loan for approximately \$5,500 was transferred to the Legal Branch on January 24, 1989. As of August 1989, no action had been taken on this account.

We were advised that some legal staff would be transferred to the Central Collection Service in 1990. This should improve the collection effort.

Interest Charges on Overdue Accounts Inconsistent

The Treasury Manual outlines that each ministry is responsible for determining whether interest should be charged on overdue accounts receivable. Where ministries have indicated that interest is to be charged on overdue accounts, the Central Collection Service charges interest until the debt is paid in full.

We found that most overdue accounts had interest provisions. During the 1989 fiscal year, the Central Collection Service Unit collected \$1.3 million in interest revenue. However, **there were approximately 11,500 accounts valued at \$10.7 million that were not accruing interest.** These included unpaid fines, student grant overpayments, agricultural programs and loan guarantees. Interest on these accounts would have totalled approximately \$1 million per year. Based on the Unit's collection success rate, approximately \$135,000 has been lost each year.

In our opinion, a central policy should be considered whereby interest is charged on all debts owed to the Government when payment takes an unreasonable length of time.

Government Accounts Receivable

MOTOR VEHICLE ACCIDENT CLAIMS FUND

Overview

The Motor Vehicle Accident Claims Fund compensates victims of accidents involving uninsured and hit-and-run motorists. Upon payment out of the Fund, the driver's licence of both the owner and driver of the uninsured vehicle are to be suspended until satisfactory repayment arrangements have been made.

Where a payment from the Fund results from a judgement, a writ of seizure and sale is filed and kept in force indefinitely.

As of March 31, 1989, the Fund had \$99 million in accounts receivable consisting of approximately 16,000 claims. During that year repayments from debtors totalled \$3.4 million while write-offs totalled \$11 million.

Collection Procedures

As a result of concerns raised in our 1984 audit report on the Fund, all delinquent accounts were to be handled by the Central Collection Service rather than private collection agencies.

By October 1985, the Fund transferred approximately \$1 million to the Central Collection Service. However, on November 30, 1987, the Fund discontinued its relationship with the Central Collection Service. Since then the Fund has carried out its own collection program.

We reviewed the Fund's collection procedures since discontinuing the use of the Central Collection Service, and noted:

- **Collection procedures did not include enforcing writs of seizure and sale, garnishing wages, accepting settlements less than the full amount of the debt, or interest on delinquent accounts.**
- **There was no skip tracing capability to locate debtors who had moved.** This function is an integral part of any collection program and exists at the Central Collection Service and ministries which have their own collection departments.
- **Where payments had been made out of the Fund by out-of-court settlement, no writs were filed against the debtor.** We were advised that the Fund does not wish to pursue debtors in these circumstances.
- **Other than mailing out reminder notices, there was no collection effort made six months after an individual's driver's licence was suspended.** If repayments had not started by this time, the account was entered into an inactive file. After five years in the inactive file, the account was written off.

Comments on Cross-Ministry and Special Audits

Inadequacy of Write-offs

Of the 16,000 accounts receivable totalling \$99 million, 14,000 accounts valued at \$75 million were listed as inactive. We had concerns that the Fund had been maintaining accounts where there was little or no hope of collection.

A review of the accounts receivable indicated that, as of March 31, 1989, there was \$47.9 million classified as uncollectable. Of this amount, \$10.9 million was written off in the 1989 fiscal year and \$7.1 million was planned to be written off in the 1990 fiscal year.

We reviewed the Fund's analysis of the \$99 million receivable for 1989 and determined that approximately 50 per cent originated before 1980. The Fund should review its accounts and consider a one time write-off of all inactive accounts older than ten years.

Repayment Terms Too Long

The Regulations under the Motor Vehicle Accident Claims Act state that "subject to a minimum of \$25, the amount of monthly repayments shall be 10 per cent of the applicant's gross monthly earnings or such other amount as the applicant may propose and the Director shall consider."

We noted some weaknesses in determining the monthly repayment amounts and reinstating the applicant's driver's licence. To illustrate:

- Debtors are required to complete an application for repayment. Since all debtors must sign a consent form permitting the Fund to access personal records, checks such as phone calls and letters to employers could be used to verify the applicant's declaration of income and listed assets.

We found that the Fund did not verify the financial information provided by the applicant. This could result in an applicant paying less than his/her capability to repay. We were subsequently advised that this is now being done.

- We noted that most debtors pay less than 10 per cent of declared gross earnings. **Based on terms agreed to, many debtors would take 50 to 60 years to repay their debts.**

Drivers' Licences Not Suspended on a Timely Basis

The Act permits the Fund to suspend a driver's licence 10 days after there is a default in payment. We were informed by management that suspending licences 60 days after default is more reasonable. However, we found that many licences were still not suspended after 60 days. In August 1989, of the 466 accounts that were delinquent for more than 60 days, 318 had not been suspended. The elapsed time ranged from 3 to 20 months. In one instance, the licence was still not suspended even though the person had been in default for three years.

Driver's licence suspensions form a basic part of the collection process at the Fund. Therefore, licences should be suspended on a timely basis.

Government Accounts Receivable

RESPONSE

The Ministry of Treasury and Economics co-ordinated the ministries' replies. The Deputy Treasurer forwarded the following comments on August 28, 1990 and included a summary of the ministries' responses. Comments appearing under ministry captions are extracts from this summary.

"We are encouraged by ministries' positive attitudes in responding to your concerns and support actions taken by them to enhance collection activities. Nevertheless, improvements are needed. Treasury will, therefore, notify all ministries about the audit findings and remind them of the policies pertaining to receivables collection as well as the policies pertaining to charging of interest on overdue accounts."

TIMELY FOLLOW-UP AND BETTER COLLECTION EFFORTS NEEDED

"Your comments on the low priority given to collections by ministries and the need to refer more accounts to commercial credit bureaus might be addressed in the future by allowing collection fees to be treated as statutory expenditures instead of being part of the ministry program expenditures. Treasury will review the legislation and discuss the subject with ministries which could result in recommendations for changes to the current policies."

MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY

"According to the Corporation, the cases noted by the Provincial Auditor are exceptions rather than the rule."

"The Corporation has undergone a major restructuring, which will result in improved collection of accounts."

"It is agreed that quicker action improves the likelihood of collecting overdue accounts. However, it may be more effective to delay collection efforts until the borrower is in the possession of funds."

"Calling personal guarantees when the loan is called has been implemented. However, the active collection of personal guarantees cannot be undertaken until the prime security is liquidated and the loss established."

CENTRAL COLLECTION SERVICE

MINISTRY OF GOVERNMENT SERVICES

Collection Efforts Need Improvement

"Collection officers concentrate their efforts on the most productive activities (initial contact and payment arrangement) as follow-up activity does not generate as much incremental revenue."

"A submission through the Revenue Incentive Fund for additional staff has been favourably received and a Management Board submission is now being finalized."

Comments on Cross-Ministry and Special Audits

"The Ministry's Legal Branch has undertaken action to improve its effectiveness in supporting Central Collection Services."

MINISTRY OF TREASURY AND ECONOMICS

Interest Charges on Overdue Accounts Inconsistent

"The Treasury manual delegates to the senior management in each ministry, the responsibility for charging interest on debts owing beyond 30 days. Exemptions from interest charges may be given on the grounds of financial hardship, economic considerations or other circumstances."

"Treasury will remind ministries of the interest policy."

MOTOR VEHICLE ACCIDENT CLAIMS FUND (MVACF)

MINISTRY OF FINANCIAL INSTITUTIONS

Collection Procedures

"The MVACF recognized the need for more aggressive collection procedures and is in the process of installing internal legal counsel to enhance various collection mechanisms."

"A formal skip tracing program is planned to be implemented at the MVACF during the summer."

"The MVACF always seeks a judgement when it is cost effective to do so and will continue to seek ways to enhance collection efforts."

Inadequacy of Write-offs

"The MVACF has instituted a system of annual write-offs which will take 3-5 years before write-offs are generally considered up-to-date."

Repayment Terms Too Long

"The MVACF now verifies debtors' financial information in its efforts to determine their ability to pay."

"Repayments are determined as a function of a debtor's disposable income. The resulting monthly cash payments may be minimal, but the amount collected as a percentage of the debtor's available cash is generally higher than 10 per cent."

Drivers' Licences Not Suspended on a Timely Basis

"Control procedures have been implemented to improve compliance with the 60 day licence suspension requirement."

Government Vehicle Fleet Administration

2.6

Government Vehicle Fleet Administration

The Ministry of Transportation develops the Government's Motor Vehicle directives and accompanying guidelines and co-ordinates the administration of the Province's motor vehicle fleet. However, adherence to these directives, including the minimization of vehicle acquisition and operating costs, is the responsibility of individual ministries.

In August 1989, Ontario Government ministries owned or leased approximately 12,200 vehicles, of which 6,900 were passenger and light-duty vehicles.

SUMMARY

SCOPE AND OBJECTIVES

The audit focused on the use and operation of passenger and light-duty vehicles in seven ministries: Agriculture and Food, Community and Social Services, Correctional Services, Environment, Labour, Solicitor General and Transportation. These ministries account for approximately 70 per cent of the Government's passenger and light-duty vehicle fleet.

Our audit objectives were to assess whether:

- . the selection of Government or personal vehicles for transportation was based on economic considerations; and
- . Government vehicles were operated and maintained economically.

CONCLUSIONS AND FINDINGS

TRANSPORTATION OPTIONS

The option of using a Government or personal vehicle was generally not based on economic considerations.

- . Many Government vehicles did not travel the minimum number of kilometres required to justify their acquisition.
- . Many personal vehicles were being used where Government vehicles would have been more economical.

VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS

Due to inadequate documentation in some ministries, it was not possible to assess whether Government-owned and leased vehicles were operated and maintained economically. Where information was available, we were not satisfied that vehicles were economically operated and maintained.

- . There was no evidence that the necessity or reasonableness of the cost of maintenance and repairs was established.

In a number of instances, repair and maintenance costs significantly exceeded the standard established by the directives.

- . Large repair costs were incurred on older vehicles which likely did not warrant such expenditures.

Comments on Cross-Ministry and Special Audits

While some of the individual amounts may appear minor, they represented instances that were commonplace and therefore collectively significant.

OTHER MATTERS

Ministries and other Government entities are required to report operational data to the Fleet Administration Office quarterly. Only 10 of 36 reported any data for the first two quarters of the 1990 fiscal year.

BACKGROUND

In 1985, the Management Board Secretariat conducted a review of Fleet Management in the Ontario Government. As a result of the review, an annual savings target of \$6 million was established. This represented 5 per cent of the estimated transportation costs of \$116 million for the 1985 fiscal year.

To help attain this target, in April 1986 Management Board assigned an enhanced mandate for fleet administration to the Ministry of Transportation. The Ministry established the Ontario Government Fleet Administration Office in the fall of 1986. This Office develops vehicle-related directives and guidelines and acts as an advisory body to all Government vehicle operators. However, it has no authority to enforce compliance with its directives and guidelines.

The Fleet Administration Office has a staff of six and is supported in its function by an inter-ministerial committee which meets quarterly.

COMMENTARY

Overview

Within the ministries, individual fleet sizes of passenger and light-duty vehicles ranged from a low of one vehicle to a high of approximately 2,300. Varying management practices and degrees of priority were assigned to fleet management. While the Ontario Provincial Police fleet was generally well managed, many of the other ministries could significantly improve their fleet management.

The following contributed to deficiencies in fleet administration practices:

- There were no procedures to ensure that directives and guidelines governing the acquisition and operation of vehicles had been complied with. For example, business cases were often not prepared.
- Ministries with small fleets did not have sufficient resources to manage their fleets appropriately. Staff assigned responsibility for Government vehicles often had other duties and only spent a small amount of time on vehicle administration. As a result, they generally lacked the expertise and incentive to be effective in the vehicle administration function.
- The large number of vehicle-related expenditures were difficult to monitor and control effectively because they tended to be dissimilar and for relatively small amounts.

Government Vehicle Fleet Administration

TRANSPORTATION OPTIONS

Transportation Options Selected Not Economical

While the use of Government-owned or leased vehicles satisfies a large part of the Government's transportation requirement, personal vehicles are also widely used. Compensation rates for the use of personal vehicles are set by Management Board annually on a graduated scale. In Southern Ontario at the time of our audit they ranged from 29 cents per kilometre for the first 4,000 kilometres to 17.5 cents after 24,000 kilometres.

Based on compensation rates and on the cost of acquiring and operating Government vehicles, the Fleet Administration Office determined that a Government vehicle should be provided to individuals travelling over 19,000 business-related kilometres in the 1990 fiscal year. The comparable figure in 1989 was 24,000 kilometres. Business-related kilometres exclude distance travelled from an employee's home to a designated headquarters.

The Ministry of Transportation recognizes that ministries cannot adjust their vehicle fleet sizes and vehicle assignments annually based on revised kilometre compensation rates and vehicle acquisition and operating costs. As a result, it expects to continue for some time at the 22,000 business-related kilometres level at which vehicles are to be provided to individuals for the 1991 fiscal year.

A large proportion of the Government vehicles reviewed did not travel the minimum number of business-related kilometres required to make provision of such a vehicle economical. At the same time, a number of employees were compensated for the use of personal vehicles when the use of a Government vehicle would have been more economical. The following are examples.

Office of the Fire Marshal

In the 1987 fiscal year, the Internal Audit Branch of the Ministry of the Solicitor General conducted a review of the Fire Marshal's vehicle fleet. Deficiencies noted at that time included:

- . Vehicle usage logs were not maintained in a complete and accurate manner.
- . 15 of 17 supervisory vehicles were regularly used for commuting between the officers' residences and the Fire Marshal's offices. Although personal use of Government vehicles averaged 57 per cent and ran as high as 88 per cent, all repair and maintenance costs were paid for by the Office of the Fire Marshal.

The Office of the Fire Marshal responded that the internal auditors' criticism of the vehicle logs was valid and that it would ensure that future logs were better maintained. In addition, it acknowledged the high rate of use of supervisory vehicles for commuting purposes. Vehicles were taken away from supervisory personnel effective May 1987, and pooled vehicles were to be used "as required."

Our review of the Fire Marshal's fleet in November 1989 indicated that **little improvement had taken place since the 1987 internal audit. Controls over vehicles continued to be unacceptable.**

Comments on Cross-Ministry and Special Audits

- Vehicle logs were poorly completed and not detailed enough to allow for effective review. Vehicles frequently travelled thousands of kilometres in a month and neither the vehicle log nor the operators' travel claims provided an explanation for this travel. Also, some log entries appeared unreasonable. For example, entries for daily travel in Metropolitan Toronto were as high as 850 kilometres.

There was no evidence that vehicle logs were reviewed and approved. In addition, a number of logs could not be located.

- 5 of 17 supervisors had been using pooled vehicles on a full-time basis since as early as September 1988, and not "as required" as indicated in the Fire Marshal's response to the internal audit report.
- Effective July 1989, Government vehicles were once again assigned to all supervisory personnel. From a review of vehicle travel logs and employee expense accounts, we determined that the majority of supervisors would travel less than 19,000 business-related kilometres annually. At least two supervisors would travel less than 6,000 business-related kilometres in a year.

In addition, supervisors were regularly using their assigned vehicles to commute between their residences and the Fire Marshal's offices. Use for commuting purposes averaged the same as in 1987 and ran as high as 95 per cent, with all vehicle costs paid for by the Fire Marshal.

In several instances individuals claimed, and were reimbursed for, use of personal vehicles while in possession of Government vehicles. For example, one individual signed out a pooled vehicle from August 14 to August 31, 1989 and travelled 700 kilometres. However, during the same period, the employee was also reimbursed \$340 for travelling 1,400 kilometres in a personal vehicle.

We recommended that the Fire Marshal only assign Government vehicles to individuals who travel enough business-related kilometres to warrant their use. The Fire Marshal should also instruct vehicle operators to maintain complete and accurate travel logs. These logs should be reviewed and approved on a regular basis.

Ministry of Labour

Most of the Ministry's vehicles were assigned to field inspectors in the Industrial Health and Safety and Construction Health and Safety branches. Our review indicated that a majority of these vehicles were under-used. For the 1989 fiscal year, 75 per cent of the fleet travelled less than the kilometre level required for that year for provision of a Government vehicle. For the 1990 fiscal year, based on a review of operating information to October 1989, approximately 55 per cent of the Ministry's fleet was likely to travel less than the 19,000 kilometres required.

Government Vehicle Fleet Administration

Furthermore, in three area offices a significant portion of the travel resulted from officers taking their assigned vehicles home at night. Some inspectors were commuting long distances to get to work at Government expense. For example, inspectors who lived in Peterborough and Orangeville had their work districts in areas of Metropolitan Toronto. We were advised that the Ministry was aware of this problem and was reassigning work districts wherever possible to rectify it.

A number of vehicles were also not assigned and therefore were only used when managers were required to make field visits. Since these individuals normally worked in their designated offices, the need for Government vehicles to be stationed at their offices was minimal.

We estimated that the Ministry would save almost \$700,000 over five years if Government vehicles travelling less than 19,000 kilometres in a year were replaced by personal vehicles reimbursed on the basis of kilometres travelled. The saving would be greater if the new minimum of 22,000 were used.

The Ministry advised that inspectors would be reluctant to give up their Government vehicles since they were not required to provide vehicles as a condition of employment. However, inspectors might be less reluctant if the Ministry significantly curbed the use of Government vehicles for commuting from home to office.

While many of the Ministry's vehicles were under-used, 87 individuals using personal vehicles were likely to be reimbursed for over 19,000 kilometres during the 1990 fiscal year. Of these, 46 would probably exceed the new standard of 22,000 kilometres. Four claims would likely be as high as 50,000 kilometres. We were advised that sufficient funds were not available to obtain enough vehicles to meet Ministry needs. However, the Ministry has agreed to review this situation.

Ministry of Transportation

At the Ministry of Transportation during the 1989 fiscal year, 138 individuals claimed over 24,000 kilometres for personal vehicle usage. Eight individuals claimed over 40,000 kilometres. On the other hand the Ministry had approximately 130 vehicles, which were primarily used for employee transportation. These vehicles travelled less than 24,000 kilometres each (averaging 13,500 kilometres).

We were advised that since the Ministry did not have enough cars, some employees had been given the option of using their personal vehicles, as long as they stayed with this option for the full year. We estimated that the Ministry could save approximately \$850,000 over five years if individuals claiming over the new standard of 22,000 kilometres for personal vehicle usage were assigned a Ministry car.

Another issue related to this was the break-even point. While the Fleet Administration Office directives established 22,000 kilometres as the new standard, the Ministry's Highway Operations and Maintenance Division used 30,000 kilometres. (Approximately 40 individuals claimed in excess of the 30,000 level for personal vehicle usage.)

Comments on Cross-Ministry and Special Audits

We recommended that the Ministry review these figures to ensure that a proper standard is established. Once a standard is established, all affected branches of the Ministry should be required to abide by it.

VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS

According to the Ministry of Transportation, the Ontario Government's vehicle fleet had a replacement value of approximately \$175 million at the time of our audit. Operating and maintenance costs would double the cost of this investment over the life of the vehicles. Therefore, good management controls over vehicle operation, maintenance and repairs are essential. For example, there should be controls in place to ensure that maintenance and repairs are undertaken only as required and at a fair price.

Individual vehicle maintenance and repair experience may vary depending on usage and other factors. However, the Ministry of Transportation has determined that, for passenger and light-duty vehicles, expenditures should average between three and four cents per kilometre driven.

Our ability to effectively review and assess maintenance and repair activities in most of the ministries was limited due to a lack of adequate documentation:

- Monthly and quarterly operating reports, prepared by ministry field offices, often included only the total dollars expended with no details about the nature of the expenditure; and
- Where invoices were located, they generally provided adequate details of the costs of parts used but inadequate details of labour charges.

Accordingly, we questioned how most ministries determined that expenditures were necessary and economical. Where we were able to review documentation, we had a number of concerns.

Necessity and Reasonableness of Maintenance and Repairs Not Determined

Given the diversity and frequency of maintenance and repair work, adequate controls are required to ensure that only necessary work is performed at a reasonable price. Such controls would normally include having:

- someone on staff who is technically proficient in the maintenance and repair of vehicles;
- that individual examine vehicles, at least on a random basis, and agree to the necessity and cost of repairs, particularly larger repairs; and
- accurate and timely vehicle maintenance and repair records to determine the plausibility of proposed work and charges, based on the experience of similar vehicles, previous repairs to that vehicle, and the applicability of warranty provisions.

Government Vehicle Fleet Administration

These controls were generally lacking. While the Ontario Provincial Police and the Ministry of Transportation had a number of mechanics on staff and performed some work in-house, they were the exception. Most individuals in other ministries who approved maintenance and repair work were not technically proficient and did not have access to in-house expertise. Furthermore, there was no evidence that these individuals saw the vehicles in question, since most approvals were given over the telephone.

In addition, in a number of instances, garage invoices did not identify the vehicles repaired. Consequently, there was little assurance that the expenses were for Government vehicles.

These inadequacies, combined with incomplete and inaccurate maintenance and repair records on a vehicle basis, meant that ministries relied almost entirely on garages to undertake only necessary work and to charge a fair price.

Since there was insufficient information available on individual vehicles, we compared total repair and maintenance costs per kilometre at individual ministry locations to the standard of three to four cents per kilometre.

In a number of locations, maintenance and repair costs per kilometre significantly exceeded the standard. There was no evidence that ministries were aware of field offices with abnormal experience. For example:

Ministry of the Environment

Maintenance and repair costs at five locations reviewed ranged from a low of .6 cents per kilometre in the Investigation and Enforcement Branch to a high of 11.5 cents per kilometre in Central Region. Repair and maintenance costs for individual vehicles were as high as 25 cents per kilometre.

Most of the work on vehicles in Central Region was performed at one garage which had been given a blanket purchase order totalling \$114,000 for a 17-month period. While three garages bid on this contract, the selection was based on an incomplete assessment of the information supplied by the bidders.

A review of a sample of invoices from this garage indicated that the number of labour hours incurred was usually not recorded. Consequently, it was not possible to determine whether labour hours were billed at the quantity and rates stipulated in the blanket purchase order.

Since labour charges were not in multiples of the hourly rates stipulated in the blanket purchase order, it is unlikely that they were billed at the those rates. In the one instance where the hours incurred were recorded, they were billed at rates higher than those previously agreed to.

Ministry of Community and Social Services

We reviewed maintenance and repair costs per kilometre at four Ministry offices. Costs averaged 7.3 cents per kilometre and were as high as 12.7 cents per kilometre in one location. Costs for individual vehicles were as high as 37 cents per kilometre over an 18-month period.

Comments on Cross-Ministry and Special Audits

Our review of garage invoices revealed some questionable items. For example a repair originally estimated at \$100 actually cost \$524, while another estimated at \$380 cost \$870. Explanations for extra costs were not provided.

The garage invoices generally lacked sufficient detail of labour costs to permit an effective review. For example, labour charges did not separate hours and rates billed.

Large Repairs of Old Vehicles

Ministries often operate their vehicles longer than recommended under their normal retention policies because of fiscal year budget constraints. This results in higher maintenance and repair costs.

During 18 months ending December 1989, costly repairs were incurred on a number of older vehicles which likely did not warrant such expenditures. For example:

At the Ministry of the Environment:

- . \$4,600 on a 1981 van;
- . \$2,400 on a 1983 compact car; and
- . \$1,700 on a 1980 van.

Similarly at the Ministry of Community and Social Services:

- . \$2,500 on a 1983 compact car;
- . \$2,100 on a 1983 compact car; and
- . \$1,800 on a 1982 compact car.

OTHER MATTERS

Ministries Not Reporting to Fleet Administration Office

In its 1987 report to Management Board, the Fleet Administration Office stated that a "government-wide database of vehicle operating information will be in operation by the end of 1988."

Accordingly, all ministries and organizations operating Government vehicles are to report operational data to the Fleet Administration Office on a quarterly basis. Data are to be reported by vehicle class or subclass and are to include at a minimum:

- . the number of vehicles in each class or subclass;
- . kilometres driven;
- . litres of fuel used;

Government Vehicle Fleet Administration

- . fuel cost; and
- . service and repair costs.

However, as at January 1990, only 10 of the 36 ministries and other Government agencies had reported for the first or second quarter of the fiscal year ending March 31, 1990. Furthermore, only five ministries fully complied with the quarterly reporting requirements the previous year.

Properly updated, the Fleet Administration Office's database of operational information could play an important role in setting Government standards and provide a good overview of fleet operations.

RESPONSE

Management Board Secretariat obtained replies from each of the ministries identified in our report. The Secretary of The Management Board of Cabinet wrote to us on August 31, 1990 and attached the ministries' responses. The following are extracts from these responses.

GENERAL

Ministry of Transportation

"The ministry's role in government fleet administration has, to date, been essentially a consultative one with all the other ministries. We have developed the policies and guidelines by which all vehicles are to be managed, while accountability for compliance has rested with each ministry. Clearly, the Provincial Auditor finds this to be inadequate. In the future, my ministry will identify areas of non-compliance and will require ministries to adequately explain such non-compliance.

"The concerns related to large expenditure repairs for older vehicles and the inappropriate use of personal vehicles rather than government owned vehicles are currently being reviewed in order to take appropriate action."

Ministry of Community and Social Services

"Both this Ministry and the Ministry of Transportation through the Fleet Administration Office have gone to great lengths to provide training, advice, information and ideas on how we can become more effective at our jobs and improve our knowledge of vehicle administration. We will escalate this training through improved attendance at fleet administration courses offered by the Ministry of Transportation."

Comments on Cross-Ministry and Special Audits

Ministry of the Environment

"By way of general comment I would like to say that we share the Provincial Auditor's concerns over some of the matters raised in his report. To address these concerns we have made changes to and strengthened the Ministry's Fleet Management Policy, and we have implemented stricter local controls over fleet management. Also, our next fleet management audit will be conducted on a Ministry-wide basis."

Ministry of Labour

"The Ministry of Labour appreciates the communication between the office of the provincial auditor and its staff on the issue of fleet management. During the course of the review there were meetings held which facilitated an open exchange of information which assisted the ministry in considering the issues associated with running the fleet of vehicles used by ministry officials. The review identified certain matters which the ministry recognized as requiring attention and, as we indicated in previous communications with the provincial auditor's staff, action has been taken to correct these."

TRANSPORTATION OPTIONS

Transportation Options Selected Not Economical

Office of the Fire Marshal

"The findings of the Provincial Auditor with respect to Office of the Fire Marshal vehicle usage and monitoring are valid. A new office policy on Vehicle Fleet Management will ensure that:

- government vehicles are used only for business purposes*
- complete and accurate travel logs are maintained*
- government vehicles are provided only upon presentation of a completed and authorized 'Pool Vehicle Request' form, which includes details on usage, destinations, mileage and repair requirements."*

Ministry of Labour

"As a general comment, . . . there is one overriding issue which the ministry believes should be highlighted to correct the apparent misperception in the report that the ministry has deficient administrative practices. The provision of vehicles to ministry field staff is governed by the terms of the collective agreement which does not permit the ministry to require the use of private vehicles as a condition of employment. With this in mind it is misleading to suggest that the ministry is in a position to save \$700,000 or to reallocate vehicles among field staff at will.

"Despite the existence of an economic break-even point for the assignment of government vehicles, the Ministry cannot require employees to provide personal vehicles for the execution of employment related duties. The Ministry feels strongly that the report does not give sufficient importance to the constraints imposed upon

Government Vehicle Fleet Administration

it by the stipulation in the Collective Agreement, that 'the use of privately owned automobiles on employers business is not a condition of employment.'

"The Ministry rotates high mileage and low mileage vehicles where it is deemed feasible. However, the geographical location and physical requirements restrict the opportunities for rotation on a province-wide basis. For example, it would be inappropriate to rotate a low mileage two wheel drive sedan from Toronto with a four wheel drive truck required to service clients in northern Ontario.

"Although there are instances where vehicles are unassigned, this results from factors such as temporary absences of field staff on head office assignments or recruitment delays.

"Occupational Health and Safety Inspectors take government vehicles home as part of an overall strategy to enhance client service. This enables inspectors to proceed directly from their home to the site of the first inspection on a daily basis . . .

"Further, since field staff are required to respond to emergency situations on a 24 hour, 7 day a week basis, they must have immediate access to a vehicle . . .

"Since it is not normal practice for inspectors to report to the ministry office, the ministry considers the travel between home and first call as work - time, and therefore the ministry considers this to be an appropriate use of government vehicles.

"It would therefore be inappropriate to put into place practices that would have the result of restricting the Ministry's ability to provide an appropriate response to emergency situations.

" . . . the ministry has taken action to rectify specific vehicle usage problems that existed as a result of inspectors living outside of their assigned work areas.

"We understand the stated \$700,000 savings figure resulted from a purely theoretical calculation which projected a 'best case' scenario of costs associated with equivalent use of personal vehicles versus government vehicles over a five year period.

"Our concern is that such a theoretical projection could never occur in reality, and could best be described as problematic since the Collective Agreement allows us no power to demand an inspector use his or her own personal vehicle.

"Further, since most situations that require an emergency response by ministry field staff already result in lost production and increased costs for our client groups, any possible government savings resulting from restricting our ability to provide emergency service would have an adverse economic impact on industry.

"The Ministry is reviewing the overutilization of personal vehicles.

"It should also be noted that the financial position of the ministry in the last few years has not allowed it to purchase vehicles at a rate commensurate with the expansion of the field force. It has therefore been necessary for the ministry to utilize personal vehicles in those instances where individual field staff were prepared to make their personal vehicle available for government business."

Comments on Cross-Ministry and Special Audits

Ministry of Transportation

"My ministry is currently developing a strategy to reduce the number of its employees who use their personal vehicles in excess of guidelines. We will also resolve the difference in break-even limits."

VEHICLE OPERATIONS, MAINTENANCE AND REPAIRS

Necessity and Reasonableness of Maintenance and Repairs Not Determined

Ministry of the Environment

"Maintenance and repair costs for some vehicles were high because of their age (over 5 years) and because some of the vehicles (38% of the vehicles reviewed for Central Region) were classified as heavy duty equipment having higher per kilometer costs than passenger and light-duty vehicles."

"These three bids were evaluated primarily on the basis of costs of the most commonly used services - specifically the costs of labour and the discounts on parts. Comprehensive evaluations of all prices on new contracts will now be carried out."

"In some cases the number of labour hours were not shown on the invoices or the hourly rates were different than the contract rate. This occurred mainly for sublet jobs and common services i.e. radiator flushing. In these instances the local Vehicle Coordinator reviewed the invoices to ensure that the hours and billing rates did not exceed those specified in the . . . Auto Repair Manual."

Ministry of Community and Social Services

"... we are taking steps to put in place new Fleet Management Guidelines on repair standards, practices and procedures. Staff and Fleet Managers will be reminded of their rights under the Motor Vehicle Act in relation to unauthorized changes to previously agreed repair estimates. An awareness program on infractions, pointed out in this segment of the report, will be implemented to help educate the various users and managers responsible for fleet vehicles. By doing so, these infractions should be greatly reduced. Inaccurate repair estimates will be eliminated and labour costs will be provided on all invoices."

Large Repairs of Old Vehicles

Ministry of the Environment

"The operation of older vehicles is not by choice. Budget constraints sometimes necessitate the purchase of used vehicles from the Ministry of Transportation. At other times, new program pressures necessitate the retention of older vehicles. Under such circumstances the repair expenditures were considered justified but would not be under normal budgetary conditions."

Inspection Audit, Centenary Hospital

Ministry of Community and Social Services

"With regard to excessive repair expenditures on older vehicles, in principle this should not occur. To avoid this type of activity from happening in the future, MCSS will strengthen present policies and keep a closer watch on repair invoices, especially for older vehicles. Although we presently have a follow-up system to try and control this type of thing it will be reviewed to see where improvements can be made."

2.7

Inspection Audit, Centenary Hospital, Ministry of Health

Centenary Hospital is a 645-bed facility situated in the City of Scarborough, offering numerous in-patient and out-patient services. In 1989, it employed 1,325 full-time and 850 part-time staff.

During the 1989 fiscal year, the Hospital had expenditures and revenue of approximately \$87 million and \$89 million, respectively. Revenue consisted of operating grants of \$76 million from the Ministry of Health and \$13 million from other sources.

SUMMARY

SCOPE AND OBJECTIVE

We examined the adequacy of the accounting records and related procedures for expenditures. For non-payroll expenditures we examined:

- . the acquisition of goods and services;
- . the inventories of drugs, fixed assets, and medical and surgical supplies; and
- . the processing and payment of goods and services.

We also examined the processing and payment of payroll expenditures.

CONCLUSIONS AND FINDINGS

NON-PAYROLL EXPENDITURES

We concluded that the accounting records and related procedures for non-payroll expenditures required major improvement.

- . Tendering procedures for equipment, general supplies and services were frequently not followed.
- . Pilferage of non-controlled drugs could have gone undetected because of weak accounting controls over inventories.
- . Missing equipment could have gone undetected because the Hospital did not maintain a record of equipment acquired.

Comments on Cross-Ministry and Special Audits

- Prompt follow-up of significant discrepancies between the records of medical and surgical supplies and stock on hand was required to ensure that the Hospital was not vulnerable to pilferage or clerical error.

However, we found:

- acquisition procedures for drugs and medical and surgical supplies were followed; and
- controls over the processing and payment of non-payroll expenditures were satisfactory.

PAYROLL EXPENDITURES

We concluded that the accounting records and related procedures for payroll expenditures were satisfactory.

OTHER MATTERS

Since June 1988, at least 27 beds, including seven critical care beds, were closed without the necessary Ministry approval.

Fifteen per cent of the acute care beds were occupied by long-term care patients in the 1989 fiscal year. If these patients were placed in chronic care hospitals and the related acute care beds in the Hospital closed, we estimated that the Province could have saved approximately \$3.4 million.

COMMENTARY

NON-PAYROLL EXPENDITURES

Competitive Selection Policy for the Acquisition of Equipment, General Supplies and Services Frequently Not Followed

A competitive selection process for goods and services helps ensure that the best value is received for funds expended, that vendors are treated fairly, and that the firm selected is the one best qualified to meet requirements. Accordingly, Hospital policy requires as many items as possible to be purchased on a competitive bid basis. Where there are two or more suppliers, a minimum of two bids are to be obtained. In certain circumstances, such as the existence of only one supplier or previous experience that justifies placing orders without bids, the policy provides for the acceptance of a single bid.

To assess compliance with this policy, we examined a sample of 46 expenditures totalling \$5.4 million, incurred over the 1989 and 1990 fiscal years. **We found that the policy was frequently not followed.**

We noted:

- 27 purchases totalling \$3.3 million where the competitive selection policy was not followed. There was no documentation explaining why purchases were made without competitive selection. Sixteen of these purchases, exceeding \$25,000 each, totalled \$3.2 million. One purchase involved a consulting contract for \$1.2 million.

Inspection Audit, Centenary Hospital

- a purchase for \$187,000 where two quotations were obtained and the lower quotation (by \$10,000) was not selected. There was no documentation to support the selection.

We recommended that Board approval be obtained for the exceptional situations when the competitive selection policy is waived. Documentation for these decisions should be placed on file.

Weak Accounting Controls over Non-controlled Drug Inventories

For the 1989 fiscal year, the pharmacy department spent approximately \$2.3 million on drugs - 95 per cent for non-controlled drugs such as antibiotics, valium and aspirin, and 5 per cent for controlled drugs such as morphine and codeine. As at March 31, 1989, the pharmacy department had approximately \$365,000 in drugs, consisting of approximately \$347,000 in non-controlled drugs and \$18,000 in controlled.

The pharmacy department provides nursing units with a multi-day supply of most drugs. In 1989, drug purchases of \$.4 million were dispensed on a ten-day supply and \$1.5 million on a four-day supply. The remaining drugs costing \$.4 million were dispensed on a one-day supply. For drugs issued on a ten-day supply, refills are generally provided for an additional ten days. For drugs issued on a four-day supply, refills are generally provided for an additional three days.

A key control over inventories is the maintenance of a perpetual inventory record, which allows actual and recorded stock to be compared. Significant differences may be the result of pilferage or clerical error and should be promptly investigated by management to minimize their effect on operations.

Accurate perpetual records were maintained by the pharmacy department for controlled drugs and adequate safeguards were in place to restrict access to authorized employees. **However, perpetual records were not maintained for non-controlled drugs and the pharmacy department staff had unrestricted access to them. Accordingly, pilferage by pharmacy staff could have gone undetected.**

Another control over inventories is a record which indicates the use of stock by responsibility centre or department. This enables management to monitor monthly costs and to investigate unusual fluctuations. **However, the pharmacy department did not maintain adequate records of drugs issued to departments.** As a result, the Hospital could not compare actual usage by department to a budgeted amount. Instead, the pharmacy department only compared Hospital purchases of certain drugs with budgeted purchases.

Hospital procedures required that unused drugs be returned to the pharmacy department. **However, there was no system to ensure unused non-controlled drugs were returned by the nursing units.** Such a system is particularly needed in view of the multi-day drug supply dispensed by the pharmacy department and the possibility that non-controlled drugs issued could have exceeded a patient's stay in the Hospital. Accordingly, pilferage of such drugs could have gone undetected.

Comments on Cross-Ministry and Special Audits

We were given to understand that the Hospital would be implementing a system in the near future to ensure that only a 24-hour supply of drugs is held in the nursing units. As well, we were informed that the Hospital will be installing a perpetual inventory system during the 1991 fiscal year which can track costs of drugs issued to each Hospital department.

Controls over Equipment Inadequate

As at March 31, 1989, fixed assets were recorded at a depreciated value of \$45.4 million (with an original cost of \$64.2 million) in the financial statements of the Hospital. Of this, \$35.2 million was for land and buildings, and the remaining \$10.2 million was for equipment. The Hospital's practice is to classify equipment purchases in excess of \$1,000 as fixed assets. Our audit focused on the controls to ensure the existence of equipment.

According to Hospital policy, when goods are transferred between departments, sold, traded or scrapped, each change is to be noted on the equipment record card. **We found that the record card did not exist.**

The principal ingredient to effective control is the maintenance of an equipment record showing details such as description, identification number, location and date of purchase. **Since such a record was not maintained, the hospital did not have the basic means to determine whether any equipment was missing.**

We selected a sample of 27 equipment purchases made between the 1986 and 1990 fiscal years and checked for the existence of this equipment and whether each item had been marked with an identification number. One item could not be found and two could not be specifically identified. In addition, many items did not have a Hospital identification number.

Controls over Medical and Surgical Supplies Inventories Required Improvement

For the 1989 fiscal year, the Hospital spent approximately \$3.4 million on medical and surgical supplies (e.g. masks, needles, bandages and sutures). According to the perpetual inventory records, supplies of approximately \$400,000 were on hand in central supply. Supplies are distributed to all areas of the Hospital including nursing units, the emergency department and the operating room. The cost of supplies issued is charged to each department.

To review the accuracy of the perpetual records, we selected 20 items and compared the actual quantity to the amount identified in the records as at November 6, 1989. Our review revealed differences in all 20 items. In many cases, the actual quantity was significantly different from that indicated in the perpetual records. For example, the records reflected 74 pairs of crutches but the actual was 48; the records indicated 27 sheepskin blankets but the actual was 13. The Hospital noted similar discrepancies at the time of its 1989 fiscal year-end count. **Significant differences may be the result of pilferage or clerical error and should be promptly investigated by management to minimize their effect on operations.**

Inspection Audit, Centenary Hospital

We also reviewed the controls over the access to medical and surgical supplies maintained at the nursing units. **In many units these supplies could easily have been obtained by almost anyone in the general area.**

We compared the actual costs to budget for eight departments for three months in the 1989 fiscal year. On many occasions, the actual was significantly higher than the budget and there was no documentation to indicate that these variances had been investigated. For example, one department budgeted approximately \$14,700 for medical and surgical supplies for a month yet the actual cost was \$20,500, or 40 per cent higher than that budgeted.

Effective April 1989, departments were required to document the reasons for differences between budgeted and actual expenditures. This new procedure was generally being followed.

Acquisition Procedures for Drugs and Medical and Surgical Supplies Followed

To assist in the acquisition of commonly used hospital items, 50 Toronto-area hospitals, including the Centenary Hospital, have grouped together and negotiated purchasing arrangements for most drugs and medical and surgical supplies. In addition, for some medical and surgical purchases, the Hospital uses large vendors who specialize in hospital supplies. This is consistent with the practices of other hospitals.

Our review of these purchasing procedures did not reveal any major deficiencies.

Satisfactory Processing and Payment Controls

For the 1989 fiscal year, non-payroll expenditures totalled approximately \$28 million, including \$20 million for general supplies and services.

The purchasing department procures goods and services for the Hospital except for drugs and dietary purchases which are the responsibility of the pharmacy and dietary departments respectively. Purchases are based on authorized purchase orders, approved contracts or other forms of documentation indicating approval. Payment for goods and services is supported by invoices and other appropriate evidence.

Our testing of these controls did not reveal any major deficiencies.

PAYROLL EXPENDITURES

Satisfactory Controls

For the 1989 fiscal year, salaries, wages and benefits totalled \$58.7 million or 67 per cent of total Hospital expenditure. Of this amount, approximately \$45.9 million was for full-time staff and \$12.8 million was for part-time staff.

Comments on Cross-Ministry and Special Audits

The payroll operation at the Hospital is automated using an on-site processing facility. Timecards are prepared by employees and authorized by their managers. Hospital staff are paid bi-weekly, based on rates established by the Hospital or by collective agreements. Changes to the payroll master file, including those relating to new and terminated employees, are based on approval and documentation from the personnel department.

As part of the payroll process, exception reports are generated. For example, one report lists employees who worked more than the required hours in a two-week period. These reports are reviewed for accuracy by the payroll and personnel departments, and corrections are made as required.

Our testing of the accounting records and related procedures did not reveal any major deficiencies.

OTHER MATTERS

Lack of Ministry Approval for Bed Closures

Hospitals are currently funded under the Business Oriented New Development Plan (BOND) which was introduced by the Ministry in the 1983 fiscal year. Under this plan, each hospital receives operating funds based on the prior year's allocation plus additional funds for growth, inflation, new and expanded programs, and life support.

If a hospital closes beds, patient services may be reduced. Surplus funds may result if the allocation from the Ministry remains unchanged. Under BOND, hospitals are permitted to keep these surplus funds. However, to ensure service levels are maintained, Ministry policy requires that program or service reductions, or bed closures which relate directly to patient care, not be made without the prior approval of the Ministry.

In the 1983 fiscal year, the Hospital received \$35 million to operate approximately 520 beds. In the 1987 fiscal year, an expansion at the Hospital was completed, increasing the total number of beds to 645, including 81 chronic care and 27 general rehabilitation beds. For this expansion, the Ministry added approximately \$18 million to the Hospital's base funding.

However, the monthly reports to the Ministry of beds in operation indicated that since June 1988, the Hospital had closed at least 27 beds including seven in the critical care area. Ministry approval was not obtained for these closures. We understood that the closures were due to nursing shortages.

In discussions with senior officials of the Ministry, we were informed that they did not monitor the Hospital's bed closures to determine if there was any effect on patient care. However, we noted that for patients admitted through the emergency department, the daily average number of patients waiting for a bed increased from six in the 1988 fiscal year to seven in 1989, an increase of approximately 17 per cent.

Inspection Audit, Centenary Hospital

Inappropriate Use of Acute Care Beds

In our previous inspection audit of a hospital, we reported that an average of 49 acute care beds (15 per cent) were occupied during the 1988 fiscal year by patients awaiting placement in long-term care facilities. A similar situation existed at the Centenary Hospital. **An average of 87 acute care beds (15 per cent) were occupied during the 1989 fiscal year by chronically ill patients.**

Comments made in our previous report to the Ministry, which are also applicable to the Hospital, included:

- the need for the Ministry to assist the Hospital in locating available chronic care beds in long-term care facilities;
- the implications of using acute care beds for chronic care patients. For example, in this case, **we estimated that the Province could have saved approximately \$3.4 million in the 1989 fiscal year if the chronic care patients of the Hospital were placed in chronic care hospitals and the related acute care beds in the Hospital closed.** Also, if 75 per cent of these patients in chronic care beds were able to pay the full co-payment fee, the chronic care hospitals could have received approximately \$500,000 for the 1989 fiscal year.
- an acknowledgement of the actions being taken by the Ontario Government aimed at drafting a plan for long-term care for the elderly and people with physical disabilities.

In its response to our report, the Ministry indicated that it had set up a Central Beds Registry which is available to all hospitals in Toronto and that the registry showed acute care and chronic care beds. However, we were subsequently informed by a senior Ministry official that this response was inaccurate as the registry does not include chronic care beds.

RESPONSES

The Chairman of the Board responded on June 15, 1990.

NON-PAYROLL EXPENDITURES

Competitive Selection Policy for the Acquisition of Equipment, General Supplies and Services Frequently Not Followed

"The Hospital will ensure a process is in place that will fully document those instances where tendering is deemed inappropriate. The process will include:

- *a mechanism for informing the Board of Governors of exceptional situations when competitive selection is waived.*
- *a vehicle for communication with participating vendors of the tendering process results.*
- *sign-off will occur in these instances by either the Vice President - Finance or the Director of Materials Management.*

"This process will be in place by August 31, 1990.

Comments on Cross-Ministry and Special Audits

"We disagree with the inference that tendering should always occur. A significant number of the purchases examined related to transactions with either niche vendors or with preferred vendors whose knowledge of the Hospital is not easily transferable. Value to the Hospital is inherent in the partnership and therefore tendering, in this instance, is not warranted. This was the situation with the \$1.2 million consulting contract."

Weak Accounting Controls over Non-controlled Drug Inventories

"The Hospital has been planning the introduction of a unit dose dispensing and distribution system since mid 1989. This system will commence operation in fiscal 1990/1991 with full implementation expected within four to five years."

"In the interim, the Hospital has taken steps to enhance the monitoring of non-controlled drugs, including the installation, within the pharmacy, of a restricted key controlled door to the non-controlled drug inventory storage room and drug review monitoring. In preparation for the unit dose system, the Pharmacy department has begun reducing the quantities of non-controlled drugs stored on the nursing units."

Controls over Equipment Inadequate

"The Hospital has committed to develop a strategy by September 30, 1990. The strategy will include a full implementation plan together with resource requirements."

Controls over Medical and Surgical Supplies Inventories Required Improvement

"With the introduction of the new computer system in April 1990, a cycle count program was implemented to periodically validate on-hand inventory quantities. Integration of the purchasing and inventory system is also a requirement for accurate inventory levels."

"The cycle count program involves stratifying the inventory to ensure maximum count coverage. As such, high volume items will be counted four times per year, moderate volumes will be counted semi-annually and slow moving items will be counted annually."

"All variances between actual and perpetual quantities will be identified as either cut-off, clerical error or pilferage. Quantity adjustments will be reviewed and approved by the Manager, Purchasing and the Controller. This process will be fully implemented by October 30, 1990."

The Deputy Minister of Health also responded on September 4, 1990 and confirmed the action being taken by the Hospital. In addition, the following comments were made relevant to "Other Matters".

Inspection Audit, University of Toronto

Lack of Ministry Approval for Bed Closures

"Acute care hospitals in the Greater Toronto Area traditionally undertake bed closures in the summer and Christmas periods. Centenary have closed beds annually during the summer months. Due to a shortage of qualified nursing staff, some critical care beds remain closed."

Inappropriate Use of Acute Care Beds

"Recently, The Government released a report entitled 'Strategies for Change: Comprehensive Reform of Ontario's Long Term Care Services.' This document presents the major directions for the reform of Ontario's long-term care system and forms the basis for the forthcoming consultation and implementation planning which will take place across the Province. The savings identified by the Auditor will only be realized if the acute beds are closed and staff positions terminated and assumes a balanced network of services will be available to the elderly."

2.8

**Inspection Audit,
University of Toronto,
Ministry of Colleges
and Universities**

The University of Toronto employs 12,000 full- and part-time staff. Six thousand are faculty. The University offers undergraduate and graduate programs to 50,000 full- and part-time students.

The University received \$333 million in operating grants from the Ministry of Colleges and Universities during the 1989 fiscal year.

SUMMARY

OBJECTIVES AND SCOPE

Our assessment of the adequacy of the University's accounting records and related procedures included an examination of:

- enrolment data reported to the Ministry, for accuracy and compliance with Ministry guidelines;
- assets, for appropriate controls; and
- purchasing and payment practices, for proper controls and compliance with University policies and procedures.

Our audit was restricted to expenditures funded by grants from the Ministry of Colleges and Universities. Accordingly, any expenditures paid through other funding sources such as federal grants, donations or ancillary revenues were excluded.

CONCLUSIONS AND FINDINGS

ENROLMENT REPORTING

We found reported enrolment data for the 1989 fiscal year to be accurate and in compliance with established guidelines.

Comments on Cross-Ministry and Special Audits

FURNITURE AND EQUIPMENT

Control over assets was unsatisfactory. Specifically:

- . The furniture and equipment listing was not complete or reliable enough to account for or control such assets. Over one third of the assets we selected from the listing either could not be accounted for or were no longer University property.
- . Physical counts were insufficient and there was limited tagging or marking of assets and no loan policy for assets taken off-campus by staff.
- . Almost half of the asset disposals we examined were transacted without obtaining the required fair market value assessments or approvals.

PURCHASING AND PAYMENT PRACTICES

University policies and procedures to encourage economical and competitive purchasing were sound, but they were often not followed. The University had satisfactory payment practices.

BACKGROUND

The University of Toronto was founded in 1827 and is the largest university in Canada.

In the 1989 fiscal year, the Ministry of Colleges and Universities provided an enrolment grant of \$333 million. This represented 75 per cent of the total operating fund income. Operating fund income in excess of expenditures for the 1988 and 1989 fiscal years was:

| | \$ millions | |
|------------------------|------------------|------------------|
| | <u>1989</u> | <u>1988</u> |
| Operating income | 450 | 415 |
| Operating expenditures | <u>418</u> | <u>393</u> |
| Operating surplus | <u><u>32</u></u> | <u><u>22</u></u> |

COMMENTARY

ENROLMENT REPORTING

Overview

The Ministry of Colleges and Universities allocates over 90 per cent of its total funding to individual universities on the basis of reported enrolment data.

Each year, the Ministry updates and issues its Manual to the universities and their external auditors to help them prepare accurate enrolment reports. The Manual defines accuracy to be within two per cent of reported enrolment.

Inspection Audit, University of Toronto

Enrolment Reporting Accurate

Using the enrolment data reported by the University of Toronto for the 1989 fiscal year, we tested an initial sample of 249 students. For a number of attributes, we extended our testing to the total reported enrolment.

On the whole we found that enrolment data reported to the Ministry for the 1989 fiscal year were accurate within the tolerable limits established by the Ministry. The University also complied with established guidelines in all significant respects.

However, we reported separately to the Ministry on certain matters, involving enrolment reporting policy and its interpretation, which we believed warranted reassessment by the Ministry. (See Section 2.9).

FURNITURE AND EQUIPMENT

Furniture and Equipment Unaccounted For

The University has a central inventory listing of furniture and equipment with a recorded value of \$310 million. The University also has written policies and procedures designed to ensure that the inventory listing is current. The Comptroller's Office is responsible for updating the listing. According to University procedure, the Comptroller's Office is to be notified in writing when assets are transferred or disposed of.

In examining the listing we found that, for over \$127 million, or 40 per cent of the furniture and equipment assets, either no location or a very general location was given. Of the remaining 60 per cent, descriptions of many of the assets were so vague that we were unable to identify the assets.

To verify the existence of assets on the listing, we selected 73 of the adequately described items for confirmation and inspection. The recorded cost was at least \$1,000 for virtually every item.

Of the 73 items selected, over one-third either could not be accounted for or were no longer University property. These items included video recorders, personal computers, cameras and electronic equipment. In the case of 14 of the items the departments had no knowledge of their existence. Management informed us that five of these items were acquired before 1971 and that it was unreasonable to expect departments to be able to locate such old items. For six other items, disposal was due to breakage or obsolescence. However, these items had not been deleted from the inventory listing. Also, another item had been given to a retiring professor two years earlier, but there was no evidence that the required senior level approval for this disposition had been obtained.

The information on the central inventory listing did not adequately account for furniture and equipment. In addition, because the inventory listing supported figures included in the financial statements, reported assets were overstated.

Comments on Cross-Ministry and Special Audits

Poor Safeguarding of Assets

Because the central inventory listing could not be relied on to keep track of assets, we assessed whether compensating physical controls existed to safeguard these assets. We found that:

- **Except for computer equipment, the University did not tag or engrave its assets** to identify them as University property.
- **Few departments requested printouts of the inventory listing or counted their assets on a periodic basis.** In interviews with 17 departments, we discovered that only three had a listing of their fixed assets, and only four indicated that they performed periodic counts.
- **A formal policy for assets loaned to employees did not exist.**
- Most furniture and equipment was self-insured as the University's deductible on each individual loss is \$250,000.

The University informed us that they have campus police and other deterrents to theft. Moreover, the University maintained that individual departments had sufficient incentive to protect their assets because each department is responsible for the first \$1,000 of loss or damage to assets. However, in our opinion, departments had not been held sufficiently accountable for the stewardship of assets entrusted to them.

Improper Disposal of Surplus Assets

University policy on the disposal of surplus assets requires that the department disposing of assets submit a disposal request to the Purchasing Department. Purchasing then determines a fair market value for the disposals and advises the department on whether to proceed. The department head is required to approve the disposal of items with a fair market value of up to \$5,000. A more senior level of approval is required when:

- the fair market value is over \$5,000;
- the sale is to an employee; or
- the asset is sold for less than fair market value.

We tested a sample of 20 requests for disposal in the 1989 fiscal year. One of the items had not yet been sold. **Of the 19 completed transactions, nine did not comply with the University's disposal policy.** The nine included computers, computer equipment, a word processor, a van and a station wagon. Specifically:

- four sales were made directly by departments without first obtaining fair market value estimates from Purchasing.
- three were made without proper approval.
- two were made without either a fair market value estimate or proper approval.

Inspection Audit, University of Toronto

Failure to advertise surplus assets available for sale may lead to abuse. Although the University had procedures in place to advertise surplus assets, 10 of the 19 completed transactions were not advertised. In addition, six of the 19 purchasers were employees or their relatives. In one of the six cases, an unadvertised 1987 truck was sold at a 45 per cent discount 16 months after purchase. However, the truck's wholesale value was still higher than the disposal price more than a year after the sale.

For four of the other employee-related transactions, sales were made without obtaining fair market value estimates or proper approval or both.

Library Book Losses Not Determined

The University has approximately 60 libraries which together spend over \$7.5 million annually on books and periodicals. The total recorded cost of library books was \$87 million at the end of the 1989 fiscal year.

Only one library counts inventory annually. Each year this library averaged a loss of 0.3 per cent of its books. However, we were unable to estimate the total annual loss of books because this library contained only four per cent of the entire collection, and also not all libraries employ the same systems of control over their collections. It is safe to assume that all libraries will lose some books each year.

Complete annual counts for such a large collection of books is not practical, but periodic cyclical counts should be considered. It may also be useful and practical to record and summarize book purchases as either new additions or replacements of lost books. Annual lists of books reported missing should also be used to assess both controls and losses.

PURCHASING AND PAYMENT PRACTICES

Overview

Operating fund purchases of goods and services for the year ended April 30, 1989 amounted to \$88 million. Typical expenditures included computer equipment, scientific equipment and office furniture.

The University has policies in place to control operating and plant expenditures. We tested 70 purchase transactions from the 1989 fiscal year for compliance with these policies. Of the 70 transactions, 61 were greater than \$1,000.

Competitive Quotations Policy Not Followed

University purchasing policy requires that quotations be obtained for all items \$1,000 and over. At least three written quotations must be obtained for purchases \$5,000 and over, unless the supplier is a sole source or is pre-established as a preferred vendor.

Of the 61 sample items costing over \$1,000, 42 did not have written quotations. Our follow-up discussion with management indicated:

Comments on Cross-Ministry and Special Audits

- 18 of the items were purchased from sole-source suppliers, and therefore it was not necessary to obtain competitive quotes.

However, University policy specifies that "sole sourcing is discouraged but, if necessary because of the specialized nature of the purchase, must be justified in writing." There was no documentation explaining why these items were classified as sole-source and why alternatives were not acceptable. Management indicated that verbal explanations might have been provided at the time of purchase.

- 15 of the items were purchased from preferred vendors. However, eight of the suppliers could not be found on the preferred vendor list. Management indicated that the list had not been updated for three years.
- For each of the remaining nine items, management agreed that three written quotations should have been obtained.

The University subsequently updated the preferred vendor list to reflect current market conditions. Management also informed us that, as a result of our audit, the buyer is now required to record whether the purchase is to be from a preferred or sole-source supplier.

Purchasing Department Bypassed

The University purchasing policies and procedures specify that the purchasing of materials, equipment and services is the responsibility of the Purchasing Department.

During our testing of competitive quotations, we noticed that seven of the 61 sample items over \$1,000 were bought by the user departments before informing Purchasing. Purchasing has the training and experience to obtain the best value for most purchases and to take full advantage of quantity discounts. The involvement of Purchasing only after purchases are made is conducive to uneconomical buying practices.

When Purchasing does not have the technical expertise, certain departments are allowed to deal directly with preferred vendors. However, none of the seven sample items were purchased from preferred vendors.

Bypassing the Purchasing Department may also allow conflict-of-interest situations to go undetected. For example, during the 1989 fiscal year the University's Ombudsman received complaints that an employee had purchased equipment and supplies for the University from his own company. This practice had continued for a number of years because the employee purchased materials only for the area that he supervised. Failure to comply with prudent purchasing policies increases the risk of such incidences occurring.

Inspection Audit, University of Toronto

Satisfactory Payment Practices

Payment practices were generally satisfactory.

- . Invoices for payment bore evidence of receipt of goods, had been matched to applicable orders, and were cancelled to prevent duplicate payments.
- . The University incurred no late payment charges. Furthermore, appropriate sales tax exemptions and discounts were taken.

RESPONSE

The Chairman of the University's Governing Council responded on August 30, 1990.

PROPERTY, PLANT AND EQUIPMENT

Furniture and Equipment Unaccounted For

"The University is aware of the deficiency in its record keeping related to the central listing of fixed assets. Throughout the past decade funding levels have forced the University to forego a number of desirable administrative practices. In 1979 the positions assigned to central accounting for furniture and equipment were eliminated in response to budget reductions.

"The sample of 73 items, 58 per cent of which were more than 10 years old and half of those more than 20 years old, out of a total inventory listing of approximately 515,000 items is not statistically valid. The statement in the audit report that

'for over \$127 million, or 40 per cent of furniture and equipment assets, either no location or a very general location was given. Of the remaining 60 per cent, descriptions of many of the assets were so vague...'

is an inappropriate conclusion when it is drawn from such a small sample. The Governing Council's Audit Committee will review this matter with the University administration."

Editorial Note: Our conclusion on the vague description of assets was based on a scrutiny of the entire asset listing. The sample of 73 adequately described items was used only to verify the existence of assets on the listing.

Poor Safeguarding of Assets

"The University believes its present procedures for the physical safeguarding of fixed assets are suitable. The University will institute a process to remind departments regularly that fixed assets under their custody are to be properly safeguarded. In addition, a policy guiding the loan of assets to employees will be established."

Comments on Cross-Ministry and Special Audits

Improper Disposal of Surplus Assets

"The University will put in place a process to remind departments regularly of the policies and procedures to be followed with respect to the disposal of surplus fixed assets."

PURCHASING AND PAYMENT PRACTICES

"The University will initiate a process to remind departments regularly of our policies with respect to the purchasing of materials, equipment and services."

2.9 Enrolment Reporting Matters, University of Toronto, Ministry of Colleges and Universities

Overview

The enrolment funding unit reported by universities is called a basic income unit (BIU). One BIU was valued at approximately \$4,500. The weights used for reporting enrolment depend on the students' programs of study. For instance, an honours Science student is weighted twice as much as a general Science student.

If upper-years honours students cannot be clearly distinguished from general students, the Ministry requires that only fourth-year students, and certain lower-year students who qualify by virtue of academic performance or "other appropriate criteria," be regarded as honours students.

Concerns raised in our two previous university audits prompted the Ministry to refer the matter of funding Arts and Science students to the Ontario Council on University Affairs for study and recommendations. We therefore recommended that the concerns raised here also be considered by the Council.

Inconsistent Funding for Arts and Science Students

Since 1969, the University has not differentiated its Arts and Science students into general and honours categories. Instead the University reached an agreement with the Ministry allowing it to use a common funding weight of 1.2 for its Arts and Science students. The weight was based on an average of two years' total enrolment in Arts and Science in the previously differentiated program.

In 1973, the University maintained that it was losing grants relative to other Ontario universities. The funding weight was recalculated to 1.24 based on the number of actual degrees conferred on three-year and four-year students. The weighting factor has been increased periodically based on graduate experience. In 1989, for example, the special weight agreed to by the Ministry was 1.419 BIUs.

In the early years the University received a comparable amount of funding for its Arts and Science students. **However, for at least the last ten years, the University's special funding arrangement has provided it with significantly more funding per Arts and Science student than other universities.**

Enrolment Reporting Matters, University of Toronto

Students Taking Commerce Program Prerequisites

The Ministry stipulates that all pre-Commerce students are to be claimed at an annual BIU weight of 1.0. Students formally accepted into a Commerce program are eligible for higher funding at an annual BIU weight of 1.5.

During the 1989 fiscal year, over 1,000 students taking Commerce program prerequisite courses were claimed as Commerce students, resulting in a claim approximately \$1.9 million higher than if they were claimed as pre-Commerce students.

The University maintained that these students were actually Commerce students because the Commerce program is a four-year program. However, the University's calendar states, "Formal admission to the program is normally made at the beginning of the second year and is based on the student's marks in the courses taken to date."

In our opinion, these students were not Commerce students because, as at the Ministry count dates, they had not been admitted into the University's Commerce program. Indeed, after completing the Commerce prerequisites, only 930 of these students applied to the program, and only 320 were accepted.

In order to ensure consistency in funding, the Ministry should determine whether other universities have adopted a similar approach to reporting Commerce students.

RESPONSE

The Deputy Minister responded to our findings on September 14, 1990.

Inconsistent Funding for Arts and Science Students

"... While no change is contemplated in the method used for amending the undifferentiated Arts and Science weight at the University of Toronto until the OCUA review has been completed, I would like to advise you that the ministry does intend that reporting for Arts and Science be performed on a consistent basis by all institutions. ...

"... The formula for determining the blended weight was implemented only after careful review and discussion by the Joint Subcommittee on Finance of the Committee on University Affairs and the Subcommittee on Operating Grants of the Committee of Presidents of Universities of Ontario.

"... the Ministry cannot agree that the blended weight for Arts and Science enrolment at the University of Toronto has resulted in that institution receiving a disproportionate share of funding. It is worthy of note that the decision to establish the blended weight was determined by an open process involving consultation with representatives from all institutions. It should also be noted that, except for the very early years of the operating formula grants, formula weights do not determine the total amount of funding made available to the system -- only the distribution of funds amongst the institutions. No additional funds would have been provided to the system using the University of Toronto's blended weight."

Comments on Cross-Ministry and Special Audits

Students Taking Commerce Program Prerequisites

"The ministry's enrolment reporting guidelines clearly state that a student taking a selection of courses, which might be classified under different formula programs of study, should be classified in the formula program in which the majority of his courses fall. Whether or not the University of Toronto has, in fact, correctly classified the Commerce students identified by your staff would depend on whether the majority of courses taken in the first year were applicable to the Commerce degree and not on whether they were formally registered in a commerce program. While we concur with your observation that the calendar description of this program would appear to refute the university's contention that Commerce is a four year program, the ministry has never required that students be formally registered in formula programs of study, since these are simply broad funding categories."

Editorial Note: As our only concern is that all institutions receive similar funding for similar students, we recommended that the Ministry pursue the issue of consistency in reporting commerce students with the universities and their auditors.

2.10

Extension of Inspection Audit Activity

In 1990 we extended our inspection audit activity to the school board community. Two school boards were selected, the Lakehead Board of Education and the York Region Roman Catholic Separate School Board. With both audits, we were pleased with the excellent cooperation and assistance extended by the trustees and staff. The more significant results of these audits are contained in the following two sections of this Report.

Many of our audit findings were common to both of the school boards. At the risk of some duplication, we have not combined similar results but have reported them separately for each Board. We felt this approach provided more complete disclosure and was preferable since these school board inspection audits were the first ever conducted by this Office.

Reference should also be made to Section 3.6 of this report, dealing with our audit of the Ministry of Education's planned accountability framework for grants to school boards.

Inspection Audit, Lakehead Board of Education

2.11

Inspection Audit, Lakehead Board of Education, Ministry of Education

The Lakehead Board of Education has 1,600 employees, including 1,100 teachers. Over 17,000 students attend the Board's 43 elementary and 8 secondary schools. The Board's expenditures for 1989 totalled \$102 million, of which \$47 million was funded by the Ministry of Education.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Board assessed whether:

- . purchases, including student transportation, were adequately controlled and were made in accordance with Board policies and procedures;
- . payroll transactions were adequately controlled and complied with Board policies;
- . the budgeting process was adequate as a control measure over Board expenditures.

CONCLUSIONS AND FINDINGS

GENERAL

Most aspects of financial management and control we examined were either adequate or would be found adequate once planned improvements were fully implemented. Many of our concerns related to a failure to follow established policies and procedures.

PURCHASES

Purchasing decisions were not documented sufficiently to demonstrate either compliance with Board policies or effective control over purchases. Specifically:

- . Many transactions did not have evidence of written or formal quotes as required by Board policy.

Student transportation contracts were awarded in accordance with Board policies and procedures. However, we were concerned that:

- . Bus contracts were not tendered periodically.
- . Route information supplied by bus operators was not verified to ensure the accuracy of the figures presented.

PAYROLL TRANSACTIONS

During our examination of selected aspects of payroll administration, we noted:

- . Controls over payments for overtime and supply teaching were weak.

Comments on Cross-Ministry and Special Audits

BUDGETING PROCESS

The 1988 budgeting process revealed some weaknesses. Specifically:

- . there were an excessive number of budget transfers and insufficient evidence that all transfers were properly approved.
- . procedures were inadequate to ensure that one-time budget infusions were identified and excluded from subsequent budgets.

However, we noted a significant reduction in budget transfers in 1989 and significant improvements in the budgetary process, including a detailed budget manual.

OTHER MATTER

The Board has in recent years been slow in studying and taking action to reduce the number of under-utilized schools.

COMMENTARY

PURCHASES

Overview

For the year ended December 31, 1989, expenditures for the Lakehead Board of Education were \$27 million excluding payroll. Typical expenditures included school, office, and maintenance supplies as well as student transportation.

Compliance with Procedures Not Evidenced

The Board's procedure manual requires three written bids for purchases costing between \$1,000 and \$5,000. For purchases over \$5,000, formal tenders are needed.

We tested 46 purchase transactions in the 1988 and 1989 fiscal years for compliance with these policies and procedures.

For the ten items in the \$1,000 - \$5,000 range:

- . 2 were purchased without the required quotes;
- . while we were informed that 3 others were purchased based on quotes, there was no documentation supporting this.

For the 36 items in the over \$5,000 range:

- . 9 were not formally tendered but were purchased based on written bids received;
- . 6 were not formally tendered nor were written bids received.

Although we were reasonably well satisfied with management's verbal explanations for the lack of quotes, prudent business practice requires that the reasons be documented at the time the transactions are made.

Inspection Audit, Lakehead Board of Education

The tender log book should also be enhanced. The log book did not contain sufficient information to demonstrate that proper tendering was performed or that contracts, once awarded, were adequately monitored.

Awarding of Transportation Contracts Complied with Policies

Transportation expenditures for the Board during the 1989 fiscal year totalled over \$7.3 million. Approximately 65 per cent of this total, or \$4.7 million, was funded by the Ministry of Education. The Board has contracts with 13 operators for 208 buses, vans and cabs. Approximately 9,850 students are transported a total of 18,000 kilometres daily.

All contracts are presented to the Trustees for approval. Each year, Administration performs an analysis of cost increases.

The process for costing and awarding transportation contracts complied with approved Board policies and procedures. This process included surveying similar school boards to determine if their process and cost data was comparable.

We reviewed the surveys and concluded that the Lakehead Board's costs were reasonable in relation to comparable boards.

Transportation Contracts Not Tendered

Administration informs busing contractors how much they are willing to pay. Existing busing operators under contract are given the opportunity to service existing routes before other companies can take them over. When a new route is added, the closest operator has the right of first refusal. This process is used by many boards across the Province.

The rationale for not tendering is that tendering would create a low-cost competition at the expense of safety and reliability. **However, tendering can be a viable alternative provided that service and safety requirements are clearly specified in the request for proposal. Moreover, whenever competition is restricted, adequate regard for economy and fairness cannot be demonstrated.**

Insufficient Testing of Route Information

The busing company is required to submit an information form for each route. This form contains key information regarding the variable costs of the route including daily kilometres (used in calculating fuel costs) and hours (used in calculating wages).

These costs represent a significant portion of the contract costs. **We found, however, that the route information was not verified by Administration to ensure the accuracy of the figures presented.**

Administration informed us that prior to 1987 these figures were tested on a random basis. However, an increased workload has since prevented such testing.

Comments on Cross-Ministry and Special Audits

PAYROLL TRANSACTIONS

Overview

For the year ended December 31, 1989, operating salaries, wages and benefits totalled \$75 million. The payroll system is run in-house, and employees are paid either bi-weekly or monthly.

We restricted our audit work to an examination of selected aspects of payroll administration, since the Board's external auditor had recently examined financial controls over the processing of payroll transactions.

Improved Control over Payments for Supply Teaching and Administrative Overtime Required

We examined controls over payments for overtime and supply teaching. **Our tests revealed that controls were not adequate to ensure all such payments were properly authorized and valid.**

We recommended that lists of officials authorized to approve overtime and time sheets of supply teachers for each school be maintained and referred to by the payroll department, and that all teacher absences be recorded and matched with time sheets prepared by supply teachers.

BUDGETING PROCESS

Overview

The budget is broken down into functions (such as Continuing Education and Transportation) which are further subdivided into decision units (such as Supplies and Equipment, Supply Teachers). For 1988, there were 22 functions and 110 decision units.

The budgeting process begins in October. The managers budget for and prioritize their needs. In December, the managers present their budgets to their Superintendents. The decision units are ranked in order of priority within department.

In January, the Superintendents present their budgets and defend them before the Executive Council, composed of the Director and all Superintendents. The packages are ranked in order of priority by the Executive Council and the preliminary budget is prepared. The budget is reviewed, debated and approved by the Board of Trustees.

Weak Accountability for Budget Transfers

Once the budget has been approved, funds can only be transferred from one approved decision unit to another through a formal budget transfer.

Inspection Audit, Lakehead Board of Education

We reviewed the budget transfers for 1988 and observed the following:

- **Numerous budget transfers were made in 1988. The excessive number of transfers raised questions as to the accuracy and reliability of the approved budget.**

In 9 of 22 decision units reviewed, the 1987 budgeted figures listed in the 1988 budget presented to Trustees did not agree with the trustee-approved 1987 budget.

- **9 of 15 budget transfers examined in detail lacked evidence of authorization by the Superintendent of Business.**

To enable Trustees to hold administration accountable for spending in accordance with the approved budgets, we recommended that:

- The Director of Education or Superintendent of Business approve all budget transfers.
- All budget transfers be summarized on the budget sheets submitted to Trustees.
- Trustees approve significant budget transfers.

We were pleased to note the significant improvements made for the 1989 budget, including a budget manual and far fewer budget transfers. Also, subsequent to our audit, a draft budget variance policy was developed and provided to us for review.

Risk That One-time Infusions May Become Regular Budget Items

Each year the budget contains many items of a one-time nature. **There were no procedures in place to ensure that these infusions were excluded from subsequent budgets.** As a result, some could become part of the regular operating budget.

In one case, we received conflicting opinions from various Superintendents as to whether a \$130,000 supplies expenditure was a one-time infusion or a regular operating budget item.

We recommended that one-time infusions be highlighted in the budget and approved by the Board to assist administrators and Trustees to evaluate the subsequent year's budget. We were advised that the Board has recently taken action in this regard.

OTHER MATTER

Under-utilized Schools

Ministry of Education guidelines require boards to develop a school closure policy. In addition, under Bill 30, dealing with funding for the Roman Catholic Separate School system, public school boards are required to identify surplus schools and transfer such schools, where appropriate, to separate school boards.

Comments on Cross-Ministry and Special Audits

The Lakehead Board's enrolment has declined by 11 per cent (more than 2,000 pupils) over the past eight years, resulting in surplus schools. For example, 14 of the Board's 51 schools have been under-utilized for at least five years. The average enrolment in these schools was only 40 per cent of capacity in 1989.

The Board's school closure policy identifies the steps to be taken by the Board from the identification of a school to the disposal of the site. The Policy states that a study for school closure will be undertaken whenever certain criteria, such as enrolment, are of concern. The process for school closure is a lengthy one, taking a minimum of one year.

However, Administration has in recent years been slow to identify and study under-utilized schools. Ten should have been studied but were not. For example, two elementary schools, 1.1 kilometres apart, had the following usage:

| | 1989 <u>Enrolment</u> | 1989 <u>Capacity</u> | 1989 <u>Utilization</u> |
|------------|--------------------------|-------------------------|----------------------------|
| Crawford | 128 | 300 | 43% |
| Heath Park | 286 | 518 | 55% |

Consolidating these two schools would reduce the Board's operating costs.

Trustees have also been slow in acting on the recommendations of studies completed by Administration. For example:

- The Board was to have transferred an under-utilized secondary school to the Separate Board by June 1988. A consultant's study estimated that \$1.7 million would be saved annually by transferring the school and the quality of education would not be jeopardized. Although the Board felt this estimate was high, they did feel that annual savings of at least \$745,000 were possible. A 1983 study had also included closure of this school as one of several options the Board should consider. However, the school was not approved for transfer until January 1990 and then only after incentives from the Ministry of Education.
- In 1977, the Board determined the optimal size of an elementary school at 300 - 500 spaces. At that time studies were started for six schools which did not meet this criterion. To 1990, the Board had only taken action to consolidate two of the six into optimal operating schools. A 1989 study estimated that additional consolidation would save \$246,000 a year.

RESPONSE

The Board's response on September 5, 1990 included the following comments.

PURCHASES

Compliance with Procedures Not Evidenced

"Although the auditor agreed that reasons are explained for lack of quotes, we agree that increased documentation is necessary. Increased documentation of quotes has been implemented in 1990. The addition of a buyer to purchasing staff September 1 will provide resources to cover this area.

Inspection Audit, Lakehead Board of Education

"The tender log book has been enhanced Further discussions will continue with regard to the amount of detail required."

Transportation Contracts Not Tendered

"We disagree with this suggestion as we believe that tendering can create a monopoly, thus placing the Board in a weak bargaining position."

Insufficient Testing of Route Information

"In the 1987-88 school year, there was an increase of 32 buses due to policy changes. This represented a significant increase in the workload and as a result route verification was not done. This year, however, with an increase in staff and enhanced computer capabilities, route information will be verified to ensure its accuracy."

PAYROLL TRANSACTIONS

Improved Control over Payments for Supply Teaching and Administrative Overtime Required

"(Regarding supply teachers) we agree - a listing is currently in place."

"The development of an authorized signature list in September of 1990 will allow all overtime timesheets to be reviewed for the authorization of the appropriate member of staff."

"The implementation of new computer software and the continuation of efforts to computerize school offices will allow the Board to expect a pre-pay rather than a post-pay approach to the matching of supply timesheets and school absentee reports. Prior to the implementation of these procedures in 1991 - 92, enhanced manual procedures are appropriate."

BUDGETING PROCESS

Weak Accountability for Budget Transfers

"Draft Variance Policy is being followed."

Risk That One-time Infusions May Become Regular Budget Items

"Present Priority Budget process ensures infusions do not become part of regular operating budget."

Comments on Cross-Ministry and Special Audits

2.12

Inspection Audit, York Region Roman Catholic Separate School Board, Ministry of Education

The York Region Roman Catholic Separate School Board has 3,200 employees, including 2,100 teachers. The Board operates 52 elementary and 7 secondary schools for over 35,000 students. The Board's expenditures for 1989 totalled \$209 million, of which \$115 million was funded by the Ministry of Education.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Board assessed whether:

- . purchases, including student transportation, were adequately controlled and were made in accordance with Board policies and procedures;
- . payroll transactions were adequately controlled and complied with Board policies;
- . the budgeting process was adequate as a control measure over Board expenditures.

CONCLUSIONS AND FINDINGS

GENERAL

York Region has experienced explosive growth in recent years. From 1984 to 1989, student enrolment has more than doubled and the number of schools has increased from 33 to 59. As a result, annual debenture repayment charges for capital construction have risen from \$2.7 million to \$8.5 million over this period. These charges must be borne completely by local taxation.

At the same time, the Board has been relatively assessment poor. Only recently did the Government announce changes which will enable separate school boards to "receive a fairer share of the education taxes paid by the businesses and factories in each community."

Our conclusions and findings should therefore be read in the context of a Board whose staff must devote an ever-increasing portion of their time to the challenges and problems created by high growth. Under these circumstances, the time available for maintaining and strengthening controls over assets and expenditures is certainly at a premium.

PURCHASES

Controls over purchasing were less than adequate. Specifically:

- . Many transactions did not have evidence of quotes or formal public tender.
- . Schools and departments often purchased goods and services directly, thus bypassing the purchasing department.
- . The Board did not award school bus contracts based on the lowest tendered price.

Inspection Audit

York Region Roman Catholic Separate School Board

- Improvements in the management of bus routing could result in significant annual savings. For the routes we reviewed, more than \$1 million was identified.

PAYROLL TRANSACTIONS

Financial controls over the processing of payroll transactions were satisfactory. However, we noted that if part-time teachers were paid on the same basis as other local boards, annual payroll savings of \$265,000 could be realized.

BUDGETING PROCESS

The budgeting process was satisfactory. However:

- Setting of the local taxation rate was more dependent on the rate set by the Region's Public School Board than on the budgeting process.
- The Board continues to budget for a deficit, which is illegal under the Education Act.

OTHER MATTER

Some Ministry grants were not spent according to the terms approved.

COMMENTARY

PURCHASES

Overview

For the year ended December 31, 1989, Board operating expenditures totalled \$56 million excluding payroll. Typical expenditures include school, office and maintenance supplies and services.

Lack of Compliance with Purchasing Policies

During 1989, the Board issued 23,000 purchase orders. According to the Board's purchasing and tendering policy, quotations or tenders are required as follows:

- | | |
|-----------------------|--------------------------------|
| • \$5,000 and under | - verbal quotations |
| • \$5,001 to \$25,000 | - minimum 3 written quotations |
| • over \$25,000 | - public tender. |

In all cases, Administration is to maintain careful documentation of quotes and tenders obtained and action taken.

We selected 52 purchases from the 1988 and 1989 fiscal years to test for compliance with the Board's policies. For 27 purchases, staff did not comply with the policies, nor did they document why quotations were not obtained. For:

- 2 purchases under \$5,000, the required quotes were not obtained;

Comments on Cross-Ministry and Special Audits

- . 11 purchases ranging from \$5,001 to \$25,000, three written quotes were not obtained;
- . 14 purchases over \$25,000, public tendering was not done.

For example:

- . For 1988 and 1989, the purchase of paper supplies was not publicly tendered as required, although for 1989 this purchase totalled \$250,000. One written quotation was received for 1988 and three for 1989.
- . In four separate purchases of computer equipment, each over \$25,000, and totalling \$335,000, no public tender was called.
- . Three written quotations were received for a \$102,000 purchase of tools and equipment. However, because the Board specified a particular name brand with no substitution, only one bidder could supply all of the equipment. There was no documentation as to why other brands of equipment were excluded.
- . During 1989, payments to a contractor for janitorial services totalled approximately \$62,000. The service was not publicly tendered. For 1990, a six per cent increase was given, again without tendering.
- . In November 1988, one high school purchased \$26,000 worth of sporting goods from one supplier without obtaining quotations. We noted another high school had negotiated a 12 per cent discount from the same supplier for similar merchandise.

Purchasing Department Often Bypassed

For routinely acquired goods, such as paper and musical instruments, the purchasing department asks suppliers for quotations annually and prepares a catalogue of the lowest-priced suppliers. The catalogues are then distributed to schools and various Board departments. According to Board policy, all catalogue and other purchases are to be made through the purchasing department. Only emergency supplies and services may be ordered directly by schools or departments.

We noted many instances where non-emergency goods and services were purchased without using the purchasing department.

- . We reviewed the invoices from one supplier listed in the learning materials catalogue who received approximately \$125,000 in 1989.

Only one-third of the purchases were for items listed in the catalogue. No competitive quotes were received for the other items purchased.
- . We also compared invoices for musical instruments acquired in 1988 and 1989 to the musical instrument catalogues.

Inspection Audit

York Region Roman Catholic Separate School Board

Approximately \$30,000 worth of instruments were purchased that were either different models than those listed in the catalogue or items not listed in the catalogue. Where substitutions were made, the amounts paid for some instruments were as much as 25 per cent higher than those in the catalogue.

- A plastering company received over \$100,000, with no competitive quotes, for repairs ranging from \$400 to \$7,000. Of this total, \$36,000 was for work carried out without a purchase order. Similar examples were noted for other companies supplying electrical, air conditioning, alarm and lock services.

The purchasing department's involvement would enable the Board to take advantage of savings that result from the competitive process and bulk purchasing. As well, it would demonstrate fairness in the selection process.

School Bus Transportation

Cost-cutting Options under Review

In April 1989, the Board approved a comprehensive transportation policy defining the roles and responsibilities of the users and providers of the transportation service.

In addition, at the conclusion of our audit, the transportation department informed us that it was studying several initiatives including:

- relying on public transit for some students;
- sharing routes with the York Region Board of Education; and
- starting and dismissing secondary school students early (in order to use the same buses for secondary and elementary students).

The transportation department informed us that these initiatives could substantially reduce the cost of school bus transportation. For instance, staggering secondary school opening and closing hours in order to re-use the same buses could save in excess of \$1 million annually. In this regard, during the 1990/91 school year two schools will be sharing routes with the York Region Board of Education. From this initiative alone, annual savings to the Separate School Board are estimated at \$75,000.

It should also be noted that the Board had one of the more generous transportation policies when compared to surrounding boards. The Board's students, particularly those at the elementary level, were generally required to walk shorter distances than students at other boards.

School Bus Transportation Tendering Not Competitive

Transportation expenditures for the Board during 1989 totalled over \$14 million. Of this, \$8.6 million was funded by the Ministry of Education. The Board used 14

Comments on Cross-Ministry and Special Audits

operators for approximately 600 buses, vans and cabs to travel a total of 41,000 kilometres daily.

In 1988, the Board tendered for transportation services for the first time. **We determined that the process fell short of being competitive.**

- . The Board did not do a complete analysis of the tenders submitted. For example, the Board did not request sufficient information from the bidders regarding the number of vehicles the companies were willing to supply at the tendered rates and the areas that the companies would service.
- . **The Board did not award contracts based on the lowest tendered prices.** This resulted in companies generally receiving the same routes they serviced prior to the tender. The few changes made were unrelated to price, despite price differences that went as high as 20 per cent.

We reviewed 83 of the 823 routes for the 1989/90 school year and determined that awarding the routes to the company with the lowest price would have resulted in savings of \$55,000.

Deficiencies in Contracts

The Ministry requires that the Board and companies formally define their responsibilities for school bus services through a written agreement. We noted various deficiencies in the agreements for the 14 bus companies used during 1989. For example:

- . Five companies lacked written agreements. Approximately \$880,000 was paid to these companies in 1989 with one of them accounting for \$710,000.
- . The Ministry indicated the minimum requirements that should be included in a written agreement. These include "the seating capacity of the vehicle to be supplied, the route or routes, the distance per route, the frequency of trips, the school or schools to which the pupils are ultimately to be transported, and the estimated number of pupils."

The Board's agreements did not specifically include any of these requirements. The contracts stated "the operator will supply the appropriate sized vehicles based on the estimated number of students on the route or routes." Because of this deficiency in the contract, grants were claimed based on buses supplied by the company. However, according to Ministry policy, the Ministry should only pay grants based on the size of bus the Board requests, not the size the company supplies.

Overpayments of School Bus Bills

We found errors in calculating the per diem rates to compensate for drivers' salary increases. These errors resulted in overpayments.

The transportation department was aware in October 1989 of these errors and informed the affected companies. However, the Board continued to pay bus companies per diem rates in excess of those specified in the contract.

Inspection Audit

York Region Roman Catholic Separate School Board

Overpayments to six companies from September 1989 to March 1990 totalled approximately \$71,000. As of March 1990, recoveries totalling \$16,000 had been received from one of the companies.

At the completion of our audit in April 1990, the inflated per diem rates were still being paid to four companies. We were advised that the Board intends to recover these overpayments, with interest.

Bus Route Management Needed Improvement

The Ministry requires that the Board plan routes to provide seating space for all school bus passengers. The Board plans routes using information received from schools on the number of eligible students entitled to transportation.

We felt improvements in the Board's management of its routes and bus service would result in lower costs to both the Board and the Ministry. The savings included in this section are the total savings to the Board and the Ministry.

- We compared the bus seats available on existing routes at 12 schools to the number of students eligible for 1989/90. For seven schools, the buses were not fully utilized. In six of these schools, the total bus capacity exceeded the number of eligible students by 10 per cent.

For the seven schools with excess capacity, we estimated potential total annual savings of up to \$380,000 by eliminating unnecessary buses.

- The agreement made with bus operators allows the transportation department to schedule "A" and "B" routes. That is, where routes are not too long, one bus can pick up and deliver two separate loads of students to the same school before classes start. This is generally more economical than having two separate buses pick up the students. At the time of our audit approximately 15 per cent of the vehicles ran a "B" route.

However, more "B" routes were possible. We reviewed three high schools, and noted 16 routes that ran 30 minutes or less. These would allow sufficient time for the buses to complete both an "A" and "B" route. **Had "B" routes been used in these cases during 1989 instead of additional buses, total savings of approximately \$200,000 could have been realized.**

- In November 1989, the transportation department conducted a one-day survey of each bus route. Drivers were asked to document the number of students that rode the bus on that day.

The survey indicated that some buses were only filled to 60 per cent of capacity. Management informed us that some eligible students never used the transportation services and others only used it infrequently.

The transportation department plans routes and bus sizes based on the number of eligible students living within transportation zones. Parents

Comments on Cross-Ministry and Special Audits

and students are not surveyed annually to determine if they intend to use the transportation services on a regular basis.

During 1989/90, the Board provided sufficient vehicles to transport the approximately 23,500 students eligible for transportation. **If only five per cent of these students decline the Board's transportation services, the resulting reduction in bus requirements could save more than \$400,000 annually.**

In some instances, more than one small vehicle was used to pick up students when one larger bus, or other buses with available seating, could have been used. For example, **we reviewed the 30 routes operated by one company that provided only small vehicles to the Board and noted potential total annual savings of about \$75,000 in four locations if larger buses were used.**

We also reviewed the routes at five elementary schools. At one school there were two cases where a bus needlessly duplicated the route of a large bus which had extra capacity. **With better route planning a total of \$45,000 could have been saved annually.** The Board stopped using these extra vehicles after our discussions with them and was planning to review all routes to eliminate duplication.

PAYROLL TRANSACTIONS

Overview

For the year ended December 31, 1989, salaries, wages and benefits totalled \$117 million. The payroll system is run by a bank, and employees are paid bi-weekly.

Our audit covered an examination of financial controls over the processing of payroll transactions and payroll administration.

Overall, we found that payroll transactions were adequately controlled and complied with Board policies. However, we noted areas where administration could be improved.

Inequities in Work Experience Credits for Teachers

Teachers' salaries are based on a number of factors including the number of years of experience.

Part-time teachers are paid for their work according to the same salary scale as full-time teachers. If a teacher works half days all year, that teacher is still credited with a full year's experience. **This creates inequities, since teachers who have different amounts of experience are paid as though they had the same amount.**

We were advised that this has always been the practice at the Board. The teachers' Collective Agreement did not address the issue of crediting part-time experience for purposes of advancing on the salary scale.

Inspection Audit

York Region Roman Catholic Separate School Board

We surveyed seven other school boards including the York Region Board of Education. These boards all credit experience based on actual time worked. For instance, a teacher would have to work two years at half-time to get credit for one year's experience for salary purposes.

At the time of our audit, the Board employed 140 part-time teachers. **Based on an average saving of approximately \$1,900 per teacher, the annual savings to the Board in 1989/90 would total approximately \$265,000.**

BUDGETING PROCESS

Overview

Annually, the Board prepares operating and capital budgets. The operating budget for the December 31, 1989 fiscal year totalled \$172 million. The five-year capital budget was \$400 million, with approximately \$114 million pertaining to 1989.

Budget Process Satisfactory

The budget process was generally satisfactory. Administration provides the Board with the detailed information required to arrive at an annual budget. Budget discussions are held during many meetings. As well, Administration identifies various options to cut the budget and reduce the deficit.

Our review of the budgeting process at the Board, did, however, indicate some matters of concern.

- Although management begins the operating budget process in September, the first draft is not presented to the Board of Trustees until after the new year has started. The final budget is not approved until early May, four months into the fiscal year. By that time, programs have already been started and expenditures incurred. We were advised that this is common throughout the Province.

Part of the problem is that the Board's information system was untimely and inaccurate, causing delays in obtaining budget information. We were advised that the new accounting computer system in place for 1990 will speed up the budgeting process.

- **For both 1989 and 1990, the final budget determination and deficit were not specifically the result of the Board's budget process.** For instance, for 1990 the Board waited until the Region's Public School Board set its taxation rate at 10.82 per cent before setting its own rate at 11 per cent.

According to the Board's projections, balancing the 1990 budget would have required approximately a 30 per cent school tax increase, instead of the 11 per cent approved by the Board of Trustees.

Comments on Cross-Ministry and Special Audits

- **The Education Act states that school boards may not budget for a deficit.** If a Board subsequently incurs a deficit, the deficit amount must be included in the next year's budget. With the Minister's approval, the deficit may be financed through local taxation over a period not to exceed three years.

The Board of Trustees approved a budget with a deficit in 1989 and 1990. These deficits were \$2.5 million and \$12 million respectively. The Board wrote the Ministry indicating that supplementary taxation would make up the shortfall and balance the 1989 budget. However, this did not materialize. The actual deficit for 1989 was \$5.2 million. For 1990, the Board had not prepared a plan as to how the \$12 million shortfall would be addressed.

OTHER MATTER

Ministry Grants Not Spent As Approved

- The Ministry provides funding for microcomputers used in classrooms under its Grant Eligible Microcomputer System (GEMS) program.

The GEMS grant is approved and allocated based on the number of elementary and secondary students. In 1989, the Ministry approved \$791,000 for elementary schools and \$266,000 for secondary schools under its GEMS program.

When the Board reported to the Ministry under the GEMS program, it indicated that the grant was spent as approved when, in fact, it was not. Instead, \$245,000 was spent for elementary schools while \$812,000 was spent for secondary schools. **If the correct information had been supplied to the Ministry the Board would have received approximately \$400,000 less.**

- Under the Capital Grant Plan, the Ministry funds the Board for portable classrooms. In 1989, the Board purchased only 25 portables at a cost of \$572,000, for which grants of \$507,000 were received from the Ministry.

The Board installed 19 portables at schools approved by the Ministry. Six portables were installed at schools which were not approved by the Ministry, including one at a school specifically declined by the Ministry. **As a result, the Board was not entitled to approximately \$125,000 provided by the Ministry for these six portables.**

RESPONSE

The foregoing comments were included in a report dated August 31, 1990. As of the reporting deadline (September 14, 1990) no response had been received from the Board.

CHAPTER

3

COMMENTS ON MINISTRY
AND CROWN AGENCY AUDITS

CHAPTER 3

COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

3.1

Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ministry and Crown agency audits.

The comments on ministries were selected from the cyclical audits of ministries. The audits on which the comments are based were completed since our last Report and are listed in Exhibit 2.

The term Crown agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. Agencies of the Crown and Crown controlled corporations are listed in Exhibits 3 and 4, respectively.

The annual attest audits of Crown agencies are primarily designed to express an opinion on whether the agencies' financial statements are presented fairly.

In addition to the attest audits, some agencies are selected by this Office for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

3.2

Inadequate Monitoring, Ministry Facilities for the Developmentally Handicapped, Ministry of Community and Social Services

The Ministry of Community and Social Services operates 11 facilities which house, feed and care for approximately 3,700 developmentally handicapped people. During the 1990 fiscal year, the Ministry spent approximately \$260 million to operate these facilities.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included discussions with Ministry officials and visits to three facilities. During the 1990 fiscal year, these three facilities had approximately 1,200 residents and spent \$90 million or 35 per cent of expenditures for all 11 facilities.

We assessed whether the Ministry:

- . ensured that funds were well spent by its facilities; and
- . monitored the operations of its facilities sufficiently to determine the adequacy of care and services.

CONCLUSIONS AND FINDINGS

FACILITY SPENDING

The Ministry did not ensure that funds were well spent by the facilities.

- . Despite having 1,500 fewer residents than ten years earlier, the facilities had essentially the same number of employees.

Comments on Ministry and Crown Agency Audits

ADEQUACY OF CARE AND SERVICES

The Ministry was not monitoring the operations of its facilities sufficiently to ensure that developmentally handicapped persons were receiving adequate care and services.

- . There were no inspections of facilities.
- . While reported abuses were dealt with promptly and decisively, evidence suggested that some resident abuse was not reported.

OTHER MATTERS

Land and buildings were under-utilized. One facility had 260 acres of land which was last used in March 1986.

Contrary to Government policy, over \$1 million earned annually from workshop and canteen operations was not being remitted to the Treasurer of Ontario.

BACKGROUND

In the 1990 fiscal year, the Ministry provided varying degrees of support to approximately 33,000 developmentally handicapped people. There were 8,000 people in nursing homes and institutions, 3,700 of whom, including 130 children, were in the 11 facilities operated by the Ministry. These facilities employed over 6,000 staff.

In 1974, the Province made a commitment to provide community living alternatives for developmentally handicapped people. Since then the Ministry has encouraged and supported programs which enable them to live as independently as possible in the community. The Ministry's policy and long-term plans are outlined in a document released in May 1987 entitled "Challenges and Opportunities: Community Living for People with Developmental Handicaps." The policy states that "institutional living is not a viable service model for the future." By 2010 the Ministry expects to have transferred all residents to community-based residences.

By 1994, the Ministry plans to close three facilities housing about 450 residents. By the same date, it also expects to have transferred another 550 residents from the remaining eight facilities to community-based residences.

The Ministry has set targets for transferring residents to the community. The three facilities visited have kept up with these targets in spite of the large numbers of people now living at home who are waiting to be placed in community-based residences. The Ministry as a whole has exceeded the targets established under its long-term plans.

Community and Social Services

Ministry Facilities for the Developmentally Handicapped

COMMENTARY

FACILITY SPENDING

Staffing

Questionable Staffing Levels

The Ministry has made several attempts to address staffing standards in its facilities over the past 15 years. With only standards used in the United States (updated in 1971 and most recently in 1981) to refer to, it was difficult, if not impossible, for facilities to determine if they were operating efficiently. There was no basis for establishing meaningful budgets. Funding was simply based on the previous year's budget plus an increase to cover inflation.

In 1979 and 1989, the 11 facilities had the following staffing levels, residents and salary costs:

| | As at | | Increase |
|---|---------------|---------------|----------------|
| | Jan. 31, 1979 | June 1, 1989 | (Decrease) |
| Direct Care Staff | 2,910 | 2,980 | 70 |
| Professional Staff: | | | |
| Ministry | 840 | 885 | 45 |
| Ministry of Education | 165 | 0 | (165) |
| Administrative and Support Services Staff | <u>2,230</u> | <u>2,300</u> | <u>70</u> |
| | <u>6,145</u> | <u>6,165</u> | <u>20</u> |
| No. of residents | <u>5,230</u> | <u>3,700</u> | <u>(1,530)</u> |
| Salary and Benefit Costs (millions) | <u>\$ 110</u> | <u>\$ 220</u> | <u>\$ 110</u> |

As the table illustrates, despite a 29 per cent decline in the resident population over the ten years, the number of staff essentially remained constant. Staffing costs per resident rose consistently, due to salary increases and a declining resident population, from \$20,000 per resident in 1979 to almost \$60,000 per resident in 1989 (or \$30,000 per resident in 1979 dollars).

Interpretation of Staffing Study Results Questionable

In December 1989, the Ministry completed a staffing study. We reviewed the factors which, the study suggested, supported current staffing levels. Although these factors in themselves supported higher staff levels, we believe they were more than offset by the decline in resident population.

- The study stated that there was an increase in the proportion of clients with greater care needs. It indicated that the greater the developmental handicap, the more care and therefore the more staff needed.

Comments on Ministry and Crown Agency Audits

We noted that while the proportion of clients with greater care needs had increased since 1981, the number of clients in every functional category had declined in the three facilities visited. The total resident population in the three facilities declined from 1,900 in 1981 to 1,200 in 1989. The number of profoundly handicapped people dropped from 450 to 380 in the same period.

- The study indicated that an increase in the number of programs for residents such as physiotherapy, recreation, training in independent living, etc. supported an increase in staffing levels.

We reviewed the hours of programming given to residents in the two facilities that maintained such statistics. In one, the average number of hours of programming per resident increased from 33 a week in 1980 to 40 a week in 1989. However, total programming hours decreased by over 300,000 a year.

At the second facility, programming hours per resident decreased from 37 a week in 1983 to 34 a week in 1989. Total programming hours decreased by almost 400,000 a year.

- The study also indicated that there were more excursions into the community, placing added demands on direct care and transportation resources. However, 9 of the 16 direct care staff we interviewed said that the total number of visits had remained the same or decreased.

Inconsistent Staffing Levels among Facilities

In reviewing overall staffing levels, we noted the following differences among the Ministry's 11 facilities as of June 1, 1989:

- Although the average staffing ratio was 1.7 employees for each resident, ratios ranged from 2.2 at the smallest facility (approximately 70 residents) to 1.4 at the largest facility (approximately 850 residents).
- Staffing costs per resident, which averaged \$60,000 for the year, ranged from \$45,000 in the facility with 850 residents to \$85,000 in the facility with 70 residents.
- A facility in central Ontario with approximately 100 fewer residents than one in eastern Ontario had 60 more staff. Although the physical layouts were different, the two centres had similar objectives, client profiles and ward-type settings.

Some facilities had fewer residents per ward than others, but the Ministry had not quantified the effects of this or other variables.

Community and Social Services

Ministry Facilities for the Developmentally Handicapped

ADEQUACY OF CARE AND SERVICES

Overview

The facilities provide personal care (feeding, dressing and bathing residents), medical care, behavioural modification, and social and recreational activities. They also teach basic skills such as grooming and table manners and survival skills for community living such as telephone and public transit use, shopping and self-medication.

These services are designed and delivered predominantly by college-trained counsellors supported by other professionals such as nurses, doctors and psychologists.

Care Given by Facilities Not Monitored

A facility inspection process would provide assurance that facilities were giving adequate care to their residents. **However, the Ministry did not inspect facilities.**

We were informed that a peer review process did exist at one time but was discontinued in the mid-1980s. Teams comprised of a cross-section of knowledgeable people from the Ministry and facilities used to periodically review all operating aspects of a facility, including resident care. Deficiencies noted by the review teams were reported to the head office and the facilities for corrective action.

The last audit of a Ministry-operated facility was conducted by the Ministry's Comprehensive Audit and Review Branch in 1985. This and prior audits were limited to financial and policy compliance issues and did not assess the area of resident care.

The Ministry periodically inspects certain community-based homes. We recommended that the Ministry perform similar inspections of its own facilities.

Reporting of Resident Abuse Questionable

Facility residents are often completely dependent upon Ministry staff to provide even the most basic care. Many must be fed, dressed and bathed by staff; many cannot talk or otherwise communicate their needs. Family contact can be infrequent and some residents have no visitors from outside. Because of the behavioural difficulties of some residents, such as self-injury, aggression, fire-setting, etc., many wards are locked 24 hours a day.

Thus, residents are particularly susceptible and vulnerable to abuse. Facility staff need to exercise good judgement and patience at all times.

In October 1989, the Ministry updated its 1978 "Guidelines for the Reporting, Investigation and Follow-up of Allegations of Abuse in Facilities for Developmentally Handicapped Individuals." The new comprehensive guidelines were prepared in consultation with the Ontario Public Service Employees Union.

Comments on Ministry and Crown Agency Audits

The guidelines require employees who witness, or have knowledge of, an incident of abuse or suspected abuse to report the incident immediately to their supervisors. Those failing to do so could be subject to disciplinary action. Administrators in two of the facilities we visited supported the initiative by putting letters of commendation on the personnel files of employees reporting abuse to management.

There were indications that abuse, once reported and substantiated, was dealt with by facility and Ministry management promptly and decisively. For example, in the years 1986 to 1989 in the three facilities visited, 25 employees faced disciplinary action for abusing residents and were either reprimanded, suspended, dismissed or charged with criminal offences.

However, there were also instances where disciplinary action was not taken against employees failing to report abuse. A 1989 Ministry investigation revealed that three counsellors had failed to report 17 separate incidents of abuse involving physical assault of residents over a one-year period. None of the counsellors were subjected to disciplinary action as required by facility policy.

The three facilities we visited recorded the following number of reported abuse cases during the years 1986 to 1989. Many of these were serious, including sexual and physical assault of residents.

| <u>Facility</u> | <u>No. of Residents</u> | <u>No. of Abuse Cases</u> |
|-----------------|-------------------------|---------------------------|
| #1 | 70 | 3 |
| #2 | 430 | 31 |
| #3 | 740 | 6 |

The accuracy of these numbers was questionable. Facility #3 destroys all evidence of unsubstantiated abuse allegations because of Union concerns that not doing so might affect the future of an innocent employee. However, administrators of the first two facilities, whose employees are also Union members, advised that they keep all records in their confidential files.

In reviewing reports of Ministry investigations, we also noted circumstances which suggested that some abuse was not reported:

- . At facility #2, 18 of the 31 cases of abuse were found to be valid. Of these, 40 per cent were reported by college students working temporarily at the facility. This suggested that permanent employees were probably not reporting all abuse.
- . Two investigations noted concerns among staff witnesses about possible persecution and harassment from other staff for reporting abuse. Some employees could have been reluctant to report abuse because of concerns for their own safety.
- . Another report noted some evidence that employees had not adequately questioned, communicated or followed through on allegations of abuse.

Community and Social Services

Ministry Facilities for the Developmentally Handicapped

Constant vigilance on the part of employees, and immediate support from management, are vital in ensuring abuse of residents is kept to a minimum.

OTHER MATTERS

Under-utilization of Assets

The Ontario Government, through the Ministry of Government Services (MGS) or the Ontario Development Corporation (ODC), owns the land and buildings occupied by the facilities. Once land and buildings are declared surplus by the Ministry of Community and Social Services, MGS or ODC decides on disposal or alternative use.

In the three facilities we visited, land and buildings were under-utilized:

- One facility had a group of 25 family homes. Only 12 were used to house residents; the other 13 were used for storage or offices.

There was enough unused space in the facility's main building nearby to meet most of its storage and office needs. This would allow better use to be made of the 13 houses. For instance, we were informed that the local government suggested they could be used for low income housing.

- **A second facility had 260 acres of land last used for farming in March 1986.** The land had not been officially declared surplus by the Ministry. Consequently, despite considerable interest in this property from various local and Provincial Government organizations, it remained unused.
- The third facility had two empty buildings with over 30,000 square feet of space that the Ministry had not declared surplus, although it had informed MGS that it was not used.

As of the date of our audit, the Ministry had not transferred control of any of these properties.

Unreported Revenue and Expenses

The three facilities visited collected gross revenues in excess of \$1 million annually from their workshop and canteen operations. However, contrary to Government policy, they did not remit these revenues to the Treasurer of Ontario.

Instead, amounts collected were deposited in local bank accounts and used to pay workshop and canteen-related expenses. Funds remaining in the bank accounts were retained by the facilities. We were concerned that this situation provided opportunities for misuse of funds.

In 1985, the Ministry's Comprehensive Audit and Review Branch recommended that the Ministry develop guidelines relating to the reporting of workshop and canteen operations. We were informed that although the recommendation had been accepted, the Ministry had not developed any guidelines.

Comments on Ministry and Crown Agency Audits

RESPONSE

The Deputy Minister's response on September 14, 1990 included the following comments which were specific to the findings and conclusions in our report.

FACILITY SPENDING

Staffing

Questionable Staffing Levels

"The Auditor's analysis presents a comparison of staffing levels between 1979 and 1989 and comments that 'despite a 29 per cent decline in the resident population over the last ten years, the number of staff essentially [have] remained constant.' This simple comparison of the number of staff between the two points in time needs to be understood in the context of important changes in the operation of Schedule I (Ministry operated) facilities over the last decade.

"The way facilities operate now in comparison to 1979 reflects a shift in programming for developmentally handicapped people, one which recognizes the rights of these individuals for support in trying to achieve their full potential. This potential is much greater than it was believed to be in the early 1970's and has profoundly affected how the facilities provide services to their residents.

"The following points illustrate some changes in facility operations and their very direct impact on staffing requirements:

- As a matter of policy, the Ministry has improved the quality of life for residents at Schedule I facilities since 1979. For example, Huronia Regional Centre accommodated 60 residents in a single ward in 1979. None of these residents had personal clothing, personal cupboard space or a private washroom or shower area. Each resident received an average of 45 minutes of programming per day. At any one time, four staff cared for all 60 residents.*
- Today, Huronia Regional Centre has apartment-style living units, each of which accommodates eight residents. Each single four-bedroom unit has a self-contained kitchen, a living room equipped with modern furniture, two bathrooms with wheelchair access to the shower and therapeutic tub with lifts, and a large outside patio. Each resident receives at least one-half a day outside the unit for structured programming, in addition to other activities such as community outings. At any one time, two staff care for the eight residents in a unit.*
- Until the 1980's, a significant number of residents of Schedule I facilities were high-functioning, with a very slight or moderate degree of mental retardation. These residents were, in effect, a supplementary unpaid labour force within the facilities. They helped in the day-to-day operation of the facilities, assisting in areas such as the kitchen, laundry and maintenance; they even helped direct-care staff look after other residents on the wards. The Ministry estimates that over 500 high-functioning residents performed these tasks at Ontario facilities in 1979. Not only does the Ministry's philosophy no longer support the large-scale involvement of residents in these types of activities, most high-functioning clients no longer live at facilities as they have moved into the community.*

Community and Social Services

Ministry Facilities for the Developmentally Handicapped

In comparing only the numbers of paid employees at facilities between 1979 and 1989, the Auditor has overlooked a significant reduction in the available workforce which has accompanied the change [in] the Ministry's operating philosophy and the subsequent reduction in the number of facility residents."

Interpretation of Staffing Study Results Questionable

"The Ministry disagrees with the Auditor's conclusion that the factors identified in the Ministry's 1989 staffing study indicate a need for reducing staffing levels at facilities. The Auditor has only examined each factor in isolation without examining how these factors, when considered together, might affect staffing needs.

"Since 1979, the proportion of residents who require greater care has increased, placing additional demands on staff time and attention. For example:

- A large proportion of residents currently in facilities exhibit high-risk behaviours. For example, 81 percent of those residents admitted to facilities have a dual diagnosis of mental retardation and psychiatric illness. As well, 84 percent of residents have at least one diagnosis present in addition to the developmental handicap (e.g., deaf-blind, physically disabled, multiply-handicapped).*
- The increasing number of mobility aids for residents demands additional staff attention. In 1979, Huronia Regional Centre had an estimated 20 manual wheelchairs for the use of all non-ambulatory residents; consequently, most of these residents remained in their wards. Today, Huronia Regional Centre has 177 manual wheelchairs and 37 electric wheelchairs and scooters which provide increased mobility for residents. Such mobility requires increased staff attention (e.g., to lift residents in and out of wheelchairs, to push manual wheelchairs).*
- The average age of residents in facilities has increased over the last decade. In 1979, about half of the residents in facilities were under 25 years old. In 1989, more than 80 percent of the residents in facilities were over 25 years old. By 1989, the proportion of residents over 56 years old had increased by five percent.*

Recent advancements in medicine and a longer life expectancy mean that older and elderly residents live longer and require more care than their 1979 counterparts.

"The Ministry does not agree with the Auditor that greater staffing requirements resulting from the proportional increase in residents with greater care needs is balanced by an overall decrease in resident population. As has been discussed earlier, residents currently in facilities receive a much greater degree of attention than they would have in 1979, resulting from the Ministry's philosophic shift to meet the individual's needs and to help achieve the individual's full potential.

"The Ministry also questions the Auditor's suggestion that decreased programming hours indicate a need for decreased staffing. The decrease in total programming hours noted by the Auditor is largely a result of residents moving out of the facilities since 1979 and has no direct correlation to staffing requirements for the particular programs offered to facility residents.

Comments on Ministry and Crown Agency Audits

"An evolution in the approach to programming over the past decade, rather than a decrease in programming hours, has the more significant impact on staffing requirements. For example:

- In 1979, programming at facilities involved large groups of residents who were supervised by only a few staff, as was the case in workshops. Since that time, the type of programming has gradually moved toward smaller groups of residents receiving attention from a large number of staff, as is the case in specific skills training programs. This more staff-intensive programming allows each resident to receive more personal attention, care or training from staff.*

"The Ministry acknowledges that the number of 'excursions' into the community by large groups of 20 or 30 residents has declined. However, these excursions have been replaced by trips into the community by individual residents, which require more staff. For example, while a busload of 20 residents could be supervised by five staff, an individual resident's trip into the community would require the attention of at least one staff person and often two when taking transportation into account."

Inconsistent Staffing Levels among Facilities

"While the Ministry recognizes that staffing ratios and costs vary among Schedule I facilities, the Ministry does not consider the differences to be improper. There are many factors influencing staffing ratios and costs and these factors differ depending on the individual facility.

"Some of the factors influencing staffing ratios and costs among facilities include the number of residents being served, the number of residents with special direct-care needs, the types of living units and the number of residents in each type, the amount of living space in each residence and the minimum staffing requirements for each residence, the number of day program clients and the physical lay-out of the facility (e.g., a single self-contained building or several smaller buildings spread out over a large area).

"For example:

- The facility which the Auditor states is serving 70 residents (with a staff-to-resident ratio of 2.2:1 and a staffing cost of \$85,000 per resident) also provides vocational services to 40 community residents for five days per week.*

If these 40 additional people are taken into account, the staff-to-resident ratio would be between 1.8:1 and 1.4:1 and the staffing cost would fall between \$14,000 and \$30,000 per resident."

ADEQUACY OF CARE AND SERVICES

Care Given by Facilities Not Monitored

"While the Ministry does not formally inspect Schedule I facilities, there are several formal and informal processes in place which ensure that the care of residents is adequate.

Community and Social Services

Ministry Facilities for the Developmentally Handicapped

"The following points describe a few of these processes:

- . Each of the 11 facilities has an individual program plan in place for each resident to meet that resident's specific needs. These individual program plans are reviewed by facility management at least once a year. The facility adjusts how it provides service to each resident on the basis of these reviews.*
- . Licensing procedures of facility programs take place where appropriate under the Child and Family Services Act.*
- . The Public Inspections Panel under the Ministry of the Attorney General periodically and formally inspects Schedule I facilities and provides a report of the inspection to this Ministry. This Ministry responds to and follows up on the report.*
- . Qualified professionals regularly hold Occupational Health and Safety inspections of facilities (e.g., fire safety, dietary requirements). The Ministry takes whatever action is required in response to these inspections. In addition, facilities are inspected regularly for adherence to municipal fire and health regulations.*
- . Parents, advocacy groups and staff provide a continuous, informal monitoring process of the quality of care in Schedule I facilities.*

"The Ministry acknowledges the importance of ensuring a high quality of care to residents in the facilities. In fact, the Ministry has already developed a peer review process for its Standards for the Use of Behavioural Procedures in Schedule I facilities, which represents an aspect of quality of care. The Ministry will use this new process as a pilot project to examine the benefits of an overall peer review process for the facilities."

Reporting of Resident Abuse Questionable

"The Ministry is pleased that the Auditor recognizes the Ministry's commitment to reducing the incidence of resident abuse and to acting promptly and decisively when allegations of resident abuse are reported.

"However, the Auditor's suggestion that the Ministry neglected to adhere to its policy regarding disciplinary action against some employees who failed to report abuse is misleading. The Ministry's policy states that employees who fail to report abuse could be subject to disciplinary action; however, this is not a requirement and is left to the judgement of facility management who are most familiar with the particular case. For example:

- . Facility management thoroughly investigated the case in which three counsellors failed to report 17 separate instances of abuse and decided that disciplinary action against these counsellors was not appropriate within the context of the case.*

Comments on Ministry and Crown Agency Audits

"(The Auditor) implies that many serious abuses are unreported in facilities. However the only evidence which the Auditor brings forth to support this implication is the number of substantiated allegations of abuse reported by college students at one facility which, according to the Auditor, 'suggests that permanent employees [are] probably not reporting all cases of abuse.' The Ministry has determined that the Auditor's evidence is not complete:

- . The Ministry carefully reviewed the Auditor's claim that 40 percent of substantiated cases of abuse at one facility were reported by college students and has determined that students on supervised work placements at this facility reported 24 percent of the substantiated cases of abuse over a three-year period. Since students on supervised work placement represent 24 percent of the facility's direct-care workforce, student reporting of abuse at this facility is not disproportionate.*

"The Ministry believes that staff reluctance to report abuse because of concerns for personal safety is minimal. However, the Ministry already has in place systems which provide support for witnesses to the greatest extent possible in each case.

"The Ministry disagrees with the Auditor's suggestion that the accuracy of statistics on resident abuse is questionable. While some facilities maintain statistics on substantiated allegations of abuse only, other facilities maintain statistics on both substantiated and unsubstantiated allegations of abuse. The fact that facilities collect statistics differently in no way implies that the information is questionable. The Ministry acknowledges that the collection of resident abuse statistics is inconsistent between facilities and will review its procedures in record retention for all cases of abuse allegations.

"As the Auditor has recognized, the Ministry is committed to dealing effectively and promptly with all instances of alleged abuse. In the single case noted by the Auditor in which this may not have happened, the facility has reviewed the Ministry's policies and procedures with the appropriate staff to prevent any recurrence."

OTHER MATTERS

Under-utilization of Assets

"The Ministry questions the Auditor's finding that land and buildings at Schedule I facilities have been underutilized. For some time, the Ministry has been discussing potential uses for existing and future unused facility property with the Ministry of Government Services (MGS), the Ontario Development Corporation, local governments and others.

"As the Auditor has noted, in each situation the Ministry discussed the use of facility property with either MGS or the Ontario Development Corporation. For example:

- . Since 1986, the Ministry has negotiated the use of 260 acres of potentially surplus land at Huronia Regional Centre with MGS and several other interested parties, which culminated with the Province's recent announcement that 53 acres of this property would be used for the future site for the headquarters of the Ontario Provincial Police. Discussions continue concerning the remaining 207 acres.*

Community and Social Services

Agencies for the Developmentally Handicapped

"The Ministry continues to work with MGS to ensure that the Province makes the most effective use of all facility property and buildings once the Ministry no longer requires these premises. MGS chairs an inter-ministerial committee at the provincial level to review potential uses for facility property before and following declaration of surplus. At the local level, each facility administrator chairs a committee to examine the required uses of facility property and buildings in the future and to suggest potential alternate uses to the inter-ministerial committee."

Unreported Revenue and Expenses

"The Ministry recognizes that revenues from facility workshop and canteen operations are not remitted to the Treasurer of Ontario as required by Government policy. Facilities use these revenues to purchase supplies and other materials for the continuing operation of the workshops and canteens, as well as for resident-focused social events."

"The Ministry will enter into discussions with the Treasurer of Ontario to resolve this situation. Subject to the outcome of these discussions with the Treasurer, the Ministry will review its internal policies controlling the expenditures and revenues involved in facility workshop and canteen operations."

3.3

Inadequate Monitoring of Agencies for the Developmentally Handicapped, Ministry of Community and Social Services

Under the Developmental Services Act, grants are provided to ten non-profit agencies for the care of developmentally handicapped persons in institutions and community homes. In the 1990 fiscal year, the Ministry paid \$48 million in operating and capital grants to these agencies.

SUMMARY

SCOPE AND OBJECTIVES

We audited three agencies which spent approximately 50 per cent (\$23 million) of the total agencies' grants in the 1990 fiscal year. Our audit also included the Ministry's head office and two area offices.

We assessed whether the Ministry:

- . ensured that funds were well spent by agencies; and
- . monitored the operations of agencies sufficiently to determine the adequacy of care and services.

CONCLUSIONS AND FINDINGS

AGENCY SPENDING

The Ministry did not ensure that funds were well spent.

- . The need for constructing two buildings costing \$8 million was questionable.

Comments on Ministry and Crown Agency Audits

- . Goods and services were often purchased without a competitive selection process. One agency had used a food company's services for 18 years, at an annual cost of over \$1 million, without competitive tender.
- . Two agencies improperly retained over \$3 million in surplus funds. One of the agencies also used substantial operating funds for capital acquisitions.
- . The Ministry could not explain the significant variance in operating costs between agencies.

ADEQUACY OF CARE AND SERVICES

The Ministry was not monitoring agency operations sufficiently to ensure that developmentally handicapped persons were getting adequate care and services.

- . Agencies were not reporting serious occurrences to the Ministry. For example, one agency did not inform the Ministry of several deaths.
- . Ministry inspections indicated compliance when deficiencies in care actually existed.

BACKGROUND

The Ministry funds ten agencies to operate facilities for developmentally handicapped persons. These agencies are non-profit organizations managed by a board of directors consisting of community representatives. The agencies provide care for approximately 800 developmentally handicapped adults and children, 670 in institutions and 130 in community homes.

The operations of the agencies are fully funded by the Province except for capital expenditures which are cost-shared between the agency and the Province. The Province makes a partial recovery from the Federal Government in accordance with the Established Program Financing agreement and the Canada Assistance Plan.

The Ministry is responsible for monitoring the operations of the agencies through area offices. In addition, several support branches at the head office in Toronto are responsible for developing policies and procedures governing the provision of care to the developmentally handicapped.

COMMENTARY

AGENCY SPENDING

Need for Facility Expansions Questioned

Under its long-term policy, the Ministry plans to close both Ministry and agency-operated institutions, and integrate residents into independent, community-living environments. The residents will be supported by locally available services in the community.

Community and Social Services

Agencies for the Developmentally Handicapped

According to the Ministry, new major capital projects should only be undertaken if:

- the capital expenditure has to be made to avoid plant deterioration and to ensure the safety of residents; or
- a community need, as opposed to the agency's own, has been identified to justify the costs involved.

Resource Centre

- **In March 1989, one agency completed construction of a resource centre to relocate the agency's offices and support services from leased premises. The centre cost approximately \$7 million. The Ministry approved and provided direct capital funding of \$4 million. The balance was paid by the agency, although primarily from Ministry operating grants.**

The building has a total area of about 55,000 square feet. The agency's 120 administrative and professional staff occupy office space of approximately 21,000 square feet. The remaining 34,000 square feet are divided equally between common and support service areas.

- At the agency we examined a 1985 architectural proposal. The proposal recommended that a Ministry of Government Services building, used by the agency as storage space, be renovated to provide office space. The architects noted that the building, with an area of 20,000 square feet, would provide the necessary office space for approximately \$1.4 million.

We were informed by the agency's senior management that had they been asked by the Ministry, they might have adopted this proposal. However, the Ministry indicated that it was never made aware of the proposal.

- The support services area is largely made up of an x-ray facility, a kitchen, a hydrotherapy pool and classrooms. No feasibility study was done to justify the need for such facilities within the community.

During our audit we observed that many of these facilities were under-utilized. For example, the hydrotherapy pool was being used only 30 per cent of the available time.

We also questioned the need for the x-ray facility, laboratory and pharmacy serving only the agency's residents. The other agencies visited used community facilities for their residents' x-rays, blood tests and medications, etc.

The agency had recently begun looking for other potential users within the community. However, we were told by the only other local community association for the developmentally handicapped that its service needs were already being met by existing community resources and that it had no intention of using the centre's facilities.

Comments on Ministry and Crown Agency Audits

- Given the availability of alternative office space and the under-utilization of the centre's facilities, we questioned the need for the centre. We also observed that the agency was still housing more than 100 residents in a sub-standard nineteenth century building. In our opinion, the money spent to build the centre could have been better used to integrate some of these residents into the community.

Sensory Stimulation Centre

- In July 1987, one agency completed construction of a centre to provide sensory stimulation and development programs for approximately 100 developmentally handicapped persons. The centre consists of a large open gymnasium and three small assessment rooms. It cost over \$1 million including direct capital funding of \$600,000 from the Ministry. The balance was paid by the agency, again primarily from Ministry operating grants.
- In October 1985, the Ontario Association for Community Living had questioned the approval of this project because it appeared inconsistent with the Ministry's long-term policy. In response to this concern, the Minister had requested that the area manager meet with the agency's Board of Directors to determine whether the Board might reconsider its decision. In March 1986, the Board received Ministry approval and proceeded with construction of the centre, citing the need for more programming areas. However, the Board had not assessed the community need for such a centre.
- A study by the agency, in November 1988, concluded that the centre was, on average, utilized much less than half the time. The study projected that the long-term resident population at the agency would decrease significantly each year. A public panel that inspected the agency in 1989 also observed that the centre was under-utilized. Currently, only three non-residents use the services offered by the sensory stimulation centre. Under the circumstances, we questioned the need for the centre.

Weak Controls over the Acquisition of Goods and Services

The agencies visited generally followed Ministry tendering guidelines when entering into building construction contracts. However, they did not use a competitive selection process for purchases of most other goods and services. For example:

- One agency had been using a food service company since 1972. The contract, which totalled over \$1 million annually, had never been competitively tendered. In 1987, the food service company carried out an analysis which showed that the agency's per capita foods costs were the lowest of five hospitals surveyed. However, between 1987 and 1989, the agency's resident population declined by over 25 per cent, yet food costs had essentially remained the same.

Community and Social Services

Agencies for the Developmentally Handicapped

In April 1988, the agency obtained a lawyer's opinion stating that there was no legal responsibility to tender for the contract. However, regardless of legal requirements, it would be prudent business practice to tender for purchases of such magnitude.

- Purchases of equipment were frequently made without tender. At one agency, purchases of food service equipment, vans, x-ray equipment and a photocopy machine totalling over \$400,000 were not tendered.

We were informed by the agency that it was not aware of the Ministry's tendering guidelines.

We also noted transactions where apparent conflicts of interest were not dealt with appropriately by the agencies.

- During the 1986 fiscal year, a firm was selected to provide architectural services for the construction of the \$7 million resource centre. The architect's fees totalled approximately \$500,000.

In reviewing the selection process followed by the agency, we noted that a principal of the successful firm had served on the agency's Board for the preceding eight years. The firm had been chosen by a selection committee established by the executive committee of the Board. From a total of 14 respondents, the selection committee short-listed six firms and conducted 45-minute interviews with their principals.

In accordance with the agency's by-law, the architect selected had declared a conflict of interest. In June 1987, the Ministry reviewed the conflict-of-interest situation. The Ministry concluded that the architect selection process had been fair and had met Ministry requirements.

We were informed that the successful firm was selected on the basis of its size, experience, successful track record, etc. However, there were no written evaluations by the selection committee members comparing the firms or explaining specifically why this firm ranked highest. In view of the conflict of interest, we felt that extra steps should have been taken by the agency to ensure that a list of measurable criteria had been established and an independent evaluation completed by each committee member to support the decision.

- In 1974 a firm of architects was commissioned by an agency to prepare a master plan for the physical alteration of the agency's buildings. The firm was awarded two architectural design contracts; one in 1983 for \$75,000 and the other in 1987 for \$100,000. Both contracts were awarded without the benefit of a competitive selection process.

The 1987 contract related to the construction of the sensory stimulation centre for over \$1 million. A principal of the architectural firm was on a committee established by the agency's Board of Directors to research the need for the centre. Because of the continuous involvement of the architect, we questioned whether the need for the centre could be objectively assessed. Additionally, since there was no competitive selection process, we questioned whether the best value was received for the funds spent.

Comments on Ministry and Crown Agency Audits

Interest Income and Surpluses Not Recovered

At the beginning of each fiscal year, each agency is required to submit an operating budget to the Ministry for approval. The budget provides a detailed breakdown of the year's estimated expenditure. Once approved, operating grants are paid monthly, in advance, to the agency.

At the close of the fiscal year, each agency is required to submit to the Ministry an Annual Program Expenditure Report, certified by a licensed public accountant and the agency's Board of Directors. The Ministry uses this to verify and reconcile grants paid to the agency.

When actual expenditures are less than grants, Ministry policy requires recovery of the surplus. Similarly, Ministry policy states that interest income generated from Ministry funds will be used to reduce future grants to agencies.

However, the Annual Program Expenditure Reports at two of the three agencies visited did not include all operating surpluses and interest income generated from Ministry grants. Between the 1981 and 1989 fiscal years, we calculated such unreported amounts to be:

| | <u>Operating Surpluses</u> | <u>Interest Income</u> | <u>Total</u> |
|----------|--------------------------------|----------------------------|--------------|
| Agency A | \$200,000 | \$2,335,000 | \$2,535,000 |
| Agency B | 246,000 | 591,000 | 837,000 |

The two agencies treated these funds as their own. In contrast, the third agency returned interest income and surpluses and retained only private donations and bequests.

During this period of eight years, agencies A and B completed several major capital projects costing approximately \$13 million. According to legislation, agencies are required to fund at least one-third of capital expenditures with money raised from private sources. The agencies' share of these projects was almost \$5 million. **However, over \$3 million was paid out of operating surpluses and interest income that should have been returned to the Ministry.**

The ownership of operating surpluses and interest income generated from Ministry grants at Agency A was also questioned by the Ministry's Comprehensive Audit and Review Branch in 1988. At the time of our audit, the matter had not been resolved.

Spending of Operating Funds Questionable

Ministry guidelines state that any capital items costing over \$15,000 can only be cost-shared after separate review and approval by the Ministry. This is to ensure that Government funds are spent on the most urgent needs first.

Community and Social Services

Agencies for the Developmentally Handicapped

Our review of expenditures revealed that, over the years, Agency A had purchased numerous capital items out of operating funds, often without the knowledge of the Ministry's area office. For example:

- The agency had paid \$167,000 for vans and \$70,000 for x-ray equipment out of operating funds during the 1988 fiscal year. The approved equipment budget for that year was \$32,000.

The agency's 1989 fiscal year operating budget included \$86,000 for dietary equipment which should have been treated as a capital item. In addition, we reviewed a sample of expenditures incurred by the agency and found \$190,000 in ineligible capital purchases. These included \$78,000 for computers and \$45,000 for a van.

In spite of these purchases, the agency had operating surpluses of approximately \$100,000 and \$300,000 for the 1988 and 1989 fiscal years respectively.

- During a January 1990 meeting of the agency's finance/property committee, a member of senior management projected an operating surplus in Ministry-funded programs of \$475,000. The member advised the committee that management had developed a prioritized list of capital replacements, major repairs and one-time expenditures that could be paid out of the operating surplus funds.

In examining the list, we noted that the bulk of the \$475,000 related to capital items, including over \$235,000 used to purchase computer equipment. The Ministry's area office was not aware of the computer equipment purchase.

Operating Costs Varied Significantly between Agencies

The cost of providing residential care services to developmentally handicapped clients is generally governed by their level of mental and physical disability. Almost 80 per cent of an agency's operating grant is spent on direct care, professional and administrative salaries.

The Ministry had calculated the agencies' per diem rates or average service cost per day per resident. However, it had not assessed whether or not the rate at each agency was reasonable.

The 1989 fiscal year rates for facilities at two of the three agencies we visited were:

| | <u>\$/day/resident</u> | <u>\$/per annum/resident</u> |
|----------|------------------------|------------------------------|
| Agency A | 167 | 61,000 |
| Agency B | 129 | 47,000 |

Comparisons with a third agency were not possible because its accounting records did not show the costs of operating facilities and group homes.

Comments on Ministry and Crown Agency Audits

Agency A had the higher per diem rate even though most of its residents were less severely handicapped than those at Agency B. Since 1982 Agency B's per diem rate had increased over 30 per cent, after adjusting for inflation. Over the same period, the number of residents had declined by approximately 20 per cent. **Neither the Ministry nor its area offices were able to explain these anomalies.**

We recommended that the Ministry conduct a review of operating costs at all agencies to ensure that costs are reasonable.

ADEQUACY OF CARE AND SERVICES

Serious Occurrences Not Reported

The Ministry requires the agencies to report serious occurrences, including all deaths, alleged abuses, and serious injuries.

We noted that in one agency, 15 residents died between January 1988 and December 1989. **The death rate was almost three times higher than the rate in other agencies and represented 15 per cent of the agency's residents. At the time of our field work, the area office's records indicated that it had received written reports on only five of the deaths. Subsequently, the Ministry advised us that information on six other deaths had been filed separately and stored temporarily on another floor at the area office.**

In reviewing the agency's medical committee minutes, we noted that many of the deaths had similar causes. Also, the minutes indicated that problems with feeding and nutrition frequently appeared to be contributing factors in these deaths.

As a result of our findings, the Ministry initiated an investigation in January 1990 into the 15 deaths. A preliminary report by the Ministry indicated that a comprehensive investigation was needed. A final report was expected by September 1990.

At the three agencies visited, we noted that many other serious occurrences were not reported to the Ministry. For example, we reviewed 10 per cent of nearly 1,000 incidents recorded by one agency between January 1988 and February 1990. **There were six serious occurrences, of which only one was reported to the Ministry.**

Inspections Inadequate

The care of residents is governed by the Developmental Services Act. Residents who are under 18 years of age are also covered by the Child and Family Services Act. At the time of our audit, there were about 550 adults and 120 children living in the ten agency-operated institutions.

Community and Social Services

Agencies for the Developmentally Handicapped

The Child and Family Services Act requires the Ministry to license children's residences and periodically monitor the care provided to the children. These periodic inspections include a review of staff levels, staff development, plans of care, serious occurrences, medical and dental practices, and safety measures. Ministry inspections are conducted once every three years. In other years, the Ministry usually allows an agency to perform a self-inspection and submit a report to the Ministry.

Although the majority of residents were adults, there was no specific legislative or Ministry inspection requirement to ensure that adequate care was provided. Our visits to the agencies confirmed that adult only residences were not included in the Ministry's inspection process. Consequently, the Ministry did not know if there were problems with the quality of care provided in such residences. For example, although required by its own internal policy, one of the agencies had never performed feeding assessments for its adult institutional residents. Such assessments are important because many developmentally handicapped persons have trouble eating.

We were informed that certain inspections covered both children and adults since they were housed in the same residence. We noted several problems in two agencies where such inspections were performed.

- **The Ministry's inspection reports indicated that serious occurrences were promptly reported. However, such occurrences were seldom reported.**
- One inspection requirement was to check that residents had medical, dental, vision, and hearing examinations performed at least annually. However, in two agencies, many residents had not had a medical or dental examination in well over a year. In addition, in one of the agencies, most of the residents had gone more than ten years without a vision or hearing examination.
- **A Ministry inspection in 1989 indicated that the clients' nutritional needs at one agency were being adequately met. However, the agency had not assessed the nutritional needs of most residents.** Also, over the previous two years, the agency's medical committee had made many recommendations concerning client nutrition and care. **The Ministry's inspection had not identified or followed up on any of the committee's recommendations.** At the time of our audit, many of the recommendations still had not been acted upon by the agency.

RESPONSE

The Deputy Minister's response on September 14, 1990 indicated that the Ministry was working closely with the agencies who were audited to ensure that specific findings were addressed. The following comments were also included in the response.

Comments on Ministry and Crown Agency Audits

AGENCY SPENDING

Need for Facility Expansions Questioned

"MCSS (Ministry of Community and Social Services) disagrees that the facility expansions were not required. Prior to the development of the Resource Centre, the agency operated two congregate residential facilities. One of these facilities provided accommodation for approximately 100 children and young adults who were in need of significant medical care or intensive supervision. The facility in which they lived was a leased, single floor, wooden structure built in the late 1940's as a temporary facility to house workers involved in the war effort.

"In 1981, the agency began to develop a long-term plan to downsize its outdated facilities and to establish a system of community-based homes for its residents. The facility mentioned above was the first site targeted for downsizing. Today, all the residents from that facility live in group or family homes in the community.

"The Resource Centre is an integral component of the service system that has enabled the agency to progress with its plans to downsize its large facilities. It should be noted that plans have also been received by MCSS to downsize the second facility. That plan is presently being reviewed by MCSS staff.

"The Resource Centre referred to in the audit report serves many functions. It provides a range of support services such as seating clinics, respite care and behaviour management to developmentally handicapped children and adults. It provides specialized laboratory and pharmaceutical services to the community. It also serves as a clinical teaching centre.

"When plans were being made for the care of residents, MCSS and the agency agreed jointly that it was appropriate to plan a separate facility for non-residential, clinical, developmental services for the agency. In addition, consideration was given to space requirements for other services offered by the agency to people with developmental handicaps living in the broader community.

"The existing structures referred to in the audit report which were available to the agencies are located on the grounds of a large institution. Renovating these structures was not a workable or practical option as it is MCSS policy to encourage locating services in the community. Therefore, a feasibility study of the structure as outlined in the MCSS's Feasibility Study Guidelines was not completed. This decision was supported by MCSS.

"The concept of dispersing administrative and support services throughout the community was considered. However, in order to preserve the interdependent relationships among services, it was decided the best option was to situate the services in one location. The close proximity of services provides opportunities for professionals to meet to discuss specific cases and for training and staff development. It was also demonstrated at that time that a dispersed system was less cost-effective than a single service centre.

Community and Social Services

Agencies for the Developmentally Handicapped

"The audit report also indicates that no feasibility study was done to justify the need for the x-ray facility, a kitchen, a hydrotherapy pool and classrooms. Extensive discussions occurred within the medical community to determine if laboratory and x-ray services could be integrated with existing mainstream facilities. It was concluded that these centres were operating at maximum capacity and were unable to accommodate the agency's service requirements. Similarly, the only other hydrotherapy pool was located in a chronic care hospital. Demand for this pool far exceeded the hours available. Given that the population being served by the pool was increasingly elderly and physically disabled and that the changing demographics projected an even greater need, a decision was made to proceed with the building of a new hydrotherapy pool. MCSS will ensure adequate documentation of such discussions in the future.

"With regard to the Auditor's statements that the Resource Centre which is operated by one agency, and the Sensory Stimulation Centre which is operated by the other agency are currently underutilized, MCSS would like to point out that they were built for present and future need. Both agencies identified in the audit are working with service providers in their respective communities to ensure appropriate use of their service centres. For example, at one agency, board and meeting rooms are booked completely by local agencies and groups. The two specialized classrooms are being used to their maximum capacity and the respite wing is used regularly by clients who need a rest during the day from classes or programs in the facility. Further community use will continue to be monitored closely by the board of directors and reported to MCSS."

Weak Controls over the Acquisition of Goods and Services

"MCSS agrees that competitive tendering is a preferred and prudent practice. This position is reflected in 'Guidelines to Purchasing' which MCSS most recently updated in 1988. Given the responsibility of the boards of directors for agency operations, the guidelines have been made available to the agencies to be used on a voluntary basis.

"In the example of the food services contract cited in the audit report, MCSS is confident, through the budget review process, that the food services costs are comparable to other large agencies in that community. Thus, while a formal tendering process is the preferred practice, it is unlikely that significant cost-savings would have resulted.

"MCSS has taken action to ensure that this agency is aware of the purchasing guidelines.

"Regarding conflict of interest, the Auditor states that transactions involving apparent conflict of interest were not addressed appropriately by the agencies. The report does not allege any impropriety. However, the report indicates that the documentation could have been more complete.

Comments on Ministry and Crown Agency Audits

"Where any agency has a conflict of interest situation, it is to be handled by the corporation through its by-laws. As well, when the issue pertains to a consultant, the consultant is directly accountable to his/her professional association. These associations have a process whereby a conflict of interest can be addressed. MCSS will remind agencies of the need to ensure that a complete audit trail exists with respect to the decision-making process."

Interest Income and Surpluses Not Recovered

"MCSS introduced the Annual Program Expenditure Report (APER) in 1985 as an annual report for use in selected programs to supplement the information provided in the financial statements. This mechanism was developed in consultation with the Ontario Institute of Chartered Accountants and relies on the expertise of external auditors to certify that reconciliations are made in accordance with MCSS policy. Each agency is provided with technical instructions for completing the APER. These instructions outline the specific requirements of the APER."

"The process is reviewed to address issues raised by agencies and field offices concerning the completion and submission of the APER documentation. As a result of this ongoing scrutiny, a number of improvements have been made to the format and the content of the documentation. Specifically, the 1988/89 APER document included an additional schedule entitled Subsidy Reconciliation. This schedule requires the agency to calculate the subsidy due in accordance with the prescribed funding, compare it to the payments received and indicate the variance. The instructions state that disposition of the amount shown as a variance will be decided by the Area Office in accordance with MCSS policy. It is the expectation of MCSS that the external auditors have verified the subsidy and payments information."

"The audit report states that two of the agencies did not identify all operating surpluses and interest income generated from MCSS subsidies."

"One agency (B) did not distinguish between operating surplus and interest earnings. The amount represented accumulated donations and earnings from the agency's non-capital funds and the interest earned on surpluses. MCSS has requested that this agency separate MCSS subsidies in its operating fund and invest temporary cash surpluses for the benefit of that fund."

"The audit report indicates that according to legislation agencies are required to fund at least one-third of capital expenditures with money raised from private sources. The audit report states that the agencies' share of these capital projects was paid out of operating surpluses and interest income."

"Given that one agency (A) had approximately \$700,000 from the sale of its property in 1972, and a successful fundraising campaign in 1988 which yielded proceeds in the order of \$2,000,000, a significant amount of the interest income was from the agency's own sources. Therefore, the capital contribution was for the most part from appropriate sources."

"As a result of the APER process, MCSS is reasonably confident that appropriate recoveries have now been made and that follow-up action has been taken to ensure accurate reporting in the future."

Community and Social Services

Agencies for the Developmentally Handicapped

Spending of Operating Funds Questionable

"The audit report identified that in some instances capital purchases were made from operating funds without prior MCSS approval.

"MCSS guidelines state that any capital item costing over \$15,000 requires prior MCSS approval. Further elaboration of these guidelines has been prepared in a draft financial directive relating to discretionary capital. This directive recognizes that agencies may have unanticipated in-year capital expenses for equipment, repairs or replacements. These purchases may be approved through either operating subsidy or discretionary capital.

"MCSS is in the process of approving this policy directive.

"MCSS will take into account the concerns identified in the audit in the final directive and in communicating this directive with its Area Offices."

Operating Costs Varied Significantly between Agencies

"The audit report indicates a variance in per diem rates. MCSS is aware that variations in per diems exist between facilities. However, it is important to note that per diems are not the basis for funding Schedule II (agency operated) facilities. MCSS funds Schedule II facilities on a global budget basis taking into account the clients being served, the program being delivered and the community in which it is situated.

"MCSS agrees that as a comparative tool per diem rates are useful for business analysis. However, even in these circumstances many factors must be considered.

"These often interdependent factors may include:

- age and level of impairment of residents;*
- degree of programming and approach to service delivery;*
- varying salary ranges and diversity of professionals;*
- range of non-residential programs; and*
- age and condition of the operation's physical plant.*

"MCSS is in the process of identifying cost variation indicators and these indicators will be used by MCSS staff to monitor, review and account for the cost associated with residential facilities."

ADEQUACY OF CARE AND SERVICES

Serious Occurrences Not Reported

"The finding that agencies did not report serious occurrences is of great concern to MCSS. Agencies are required to report any incidents of a serious nature to the Area Office through an appropriate designate such as a Program Supervisor or Area Manager.

Comments on Ministry and Crown Agency Audits

"There are two sets of guidelines which outline the necessary steps to follow with a serious occurrence. They are the Developmentally Handicapped Residential Services Manual (widely used as a guide in facilities with more adults than children) and Guidelines and Procedures for the Reporting and Follow-up of Serious Occurrences [used in children's programs funded or licensed under the Child and Family Services Act (CFSA)].

"The audit has highlighted the need to re-examine these two documents to ensure clear and consistent definitions of what constitutes a serious occurrence. MCSS will also provide direction in cases where it is uncertain that an incident is a serious occurrence.

"Immediate action has been taken by Area Offices to ensure the current guidelines are being adhered to by all Schedule II facilities. MCSS will direct its Area Offices to review, with agencies and their boards, the obligation and responsibility to report serious occurrences. Further, MCSS will provide direction for establishing administrative procedures for documenting, tracking, analyzing, and following up serious occurrence reports.

"As reported in the audit, an independent review has been undertaken by the board of directors in one agency. Pending the final report, the board of directors has taken steps to supplement staff training in feeding and nutrition. Other precautionary measures instituted by the board include providing additional staff during feeding and enhancing nursing staff on each shift to ensure adequate health and medical care. The recommendations of the independent review will also be analyzed by MCSS to determine if they can be applied to all Schedule II agencies across the Province."

Inspections Inadequate

"The auditors state that 'although the majority of residents are adults, there is no specific legislative or Ministry inspection requirement to ensure adequate care.'

"The care of residents living in Schedule II facilities is governed by the Developmental Services Act. This legislation does not require licensing of adult residences. However, the care of residents who are under the age of 18 years is also governed by the CFSA. The CFSA requires that children's residences are licensed annually. Schedule II facilities covered by this legislation all have current licences.

"Furthermore, the Public Inspections Panel, under the Ministry of the Attorney General, periodically and formally inspects Schedule II facilities and provides a report of the inspection to MCSS. MCSS responds to and follows up on the report.

"Quality of care is an important issue for MCSS. For this reason, within this year, MCSS will initiate a peer review process in Schedule II facilities in cooperation with agency boards of directors and professionals."

Community and Social Services

Homes for the Aged

3.4

Inadequate Procedures for Monitoring Homes for the Aged, Ministry of Community and Social Services

The Ministry's Adults' Social Services Activity provides most of the funding for, and regulates, the operations of homes for the aged run by municipalities and charitable institutions. For the 1990 fiscal year, payments to homes for operating expenses totalled \$358.7 million (municipal \$289.8 million and charitable \$68.9 million).

The homes for the aged program is delivered through 13 area offices that serve as the primary contact point for homes. In addition, the Elderly Services Branch in Toronto is responsible for policy and program development for seniors.

SUMMARY

SCOPE AND OBJECTIVES

Our audit was conducted at the Elderly Services Branch and four area offices located in Hamilton, Toronto, North Bay and Peterborough. We interviewed key personnel, including the Director of the Branch and Branch and area office Managers. In addition, we accompanied Ministry personnel on their visits to seven homes to gain an understanding of their roles and the operations of the homes.

We assessed the Ministry's procedures for monitoring the quality of care in homes for the aged.

CONCLUSIONS AND FINDINGS

MONITORING QUALITY OF CARE

We concluded that Ministry procedures for monitoring the quality of care were inadequate.

- The frequency and scope of inspection activities were not specified.
- Little or no documentation was available to indicate:
 - the frequency and nature of visits to homes;
 - follow-up activity when annual reports were not submitted by the homes' Medical Directors; and
 - the monitoring performed to ensure that annual fire safety and monthly sanitary inspections had been done.
- Nursing reviews were infrequent and did not ensure that care provided to residents was appropriate to their needs.

BACKGROUND

As at March 31, 1990, there were 182 homes (93 municipal and 89 charitable) with a capacity of approximately 28,700 beds, 12,900 residential care and 15,800 extended care. Residential care beds are provided for those residents who require less than 1 1/2 hours of nursing care per day, whereas extended care beds are for those residents who require 1 1/2 hours or more of nursing, medical and personal care a day.

Comments on Ministry and Crown Agency Audits

Residents are provided with accommodation, meals, personal and medical care, and a range of social and recreational activities. Residents vary in the amount and types of care they require as well as in their lengths of stay. Persons in need may suffer from a large array of physical and mental disabilities. According to information from the Ministry, about 45 per cent of residents in homes are over 85 years of age and the majority of the remainder are between 65 and 85.

COMMENTARY

MONITORING QUALITY OF CARE

Overview

Although the homes' boards of directors or committees of management have the responsibility and accountability for day-to-day management, including outcomes of resident care and program quality and effectiveness, the Ministry has the responsibility to inspect the homes to ensure that they comply with various requirements of their respective statutes.

The Charitable Institutions Act states that a Provincial Supervisor shall inspect each charitable institution for the purpose of determining compliance with the Act and the Regulation. The Homes for the Aged and Rest Homes Act states that homes shall be open at all reasonable times for inspection by a Provincial Supervisor or other appointed person(s). Some of the key provisions of both Acts and Regulations pertain to maintaining adequate standards in fire safety, hygiene, diet, medical services and the physical condition of the building. The Acts make no reference to imposing sanctions against the homes if they do not comply with the legislation.

In order to discharge its responsibilities, each area office has Program Supervisors who are designated as the Provincial Supervisors by the Ministry. They serve as the prime contact between the Ministry and the homes. It is their responsibility to ensure that homes provide an adequate level of care to residents and that statutory requirements are met. Furthermore, they are required to provide advice to the homes, to be aware of any problems in the homes and to keep senior management of the Ministry informed. Many Program Supervisors are also involved in the delivery of several other programs of the Ministry.

In addition, the Program Supervisors can request health care consultants, at the corporate office in Toronto, to review the operations of homes. There are three nursing consultants, one dietician and one part-time medical consultant on staff. Area offices can hire similar professionals locally to perform specialized reviews. Any follow-up of recommendations made by these consultants is the responsibility of the Program Supervisors. Therefore, effective administration of the homes for the aged program to a large extent depends on the work of the Program Supervisors.

Inspection Procedures Still Inadequate

In our 1986 audit, we concluded that inspection procedures were not adequate to ensure that homes were complying with standards for the care and safety of residents. We reported that the frequency and the scope of inspection activities were not specified; actual inspections were infrequent; and the results of inspections and the follow-up of

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deficiencies noted were poorly documented. In our current audit, we noted similar deficiencies.

Our discussions with Program Supervisors at the four area offices, and a review of the files for 21 of the 75 homes for which they were responsible, indicated:

- **Program Supervisors had not prepared annual plans establishing the frequency and intended purpose of visits to homes.**
- Program Supervisors carried out their responsibilities through informal visits with the homes' senior management or Board members. However, as little or no documentation existed on the files, we could not determine how often they visited homes or what they did during these visits.
- Generally, homes were given long advance notice of visits by Program Supervisors. This might have resulted in conditions in the home at the time of the visits not being representative of conditions during the year.
- Program Supervisors considered themselves to be liaison persons between the home and the Ministry. They did not feel qualified to perform specialized nursing and dietary reviews. In addition, they did not have the time because of their many other responsibilities.
- **Medical reports were not on file for 14 of the homes and there was no documentation to indicate that Program Supervisors had followed up on the outstanding reports.**

Regulations require the home's Medical Director to submit an annual report to the Ministry and to the Board of Directors or Committee of Management of the home. In this report, the Director summarizes: the general health conditions of the residents; the nursing, activational and other therapeutic services provided to the residents; and any recommendations that are considered necessary to ensure proper health and adequate state of well being for all residents.

- **There was little evidence that Program Supervisors monitored the results or frequency of inspections carried out by other authorities. For example 20 files indicated no documentation of either fire safety or sanitary inspections.**

Regulations require the home's Board of Directors or Committee of Management to ensure that fire safety inspections of homes are carried out annually by the Fire Marshal's Office or the local fire department. Also, Regulations and Ministry policy require that sanitary conditions of the homes be inspected monthly with the assistance of local Public Health Units.

We did note, however, that when the Ministry was made aware of problems regarding the safety and well-being of residents at a home, the Program Supervisor would direct his/her concerns to home management and adequately monitor the actions taken.

Comments on Ministry and Crown Agency Audits

Nursing Reviews Still Infrequent

In our 1986 audit we reported that, due to the small number of Ministry health care consultants, the number of specialized reviews had been very limited. In our current audit, we noted that nursing reviews were still infrequent.

In the four area offices we visited, our review of the use of nursing consultants indicated that:

- For two area offices, the last nursing reviews were done in January 1989 and March 1988.
- Another area office had not done any nursing reviews since 1987. At the time of our audit, the area office had hired a nursing consultant to conduct a review in one of its homes.
- The fourth area office had hired two nursing consultants in 1987 to do a one-time review of each of the 24 charitable homes in its area. As of May 1990, 20 of these reviews had been completed.

In addition, only one nursing review had been done in the last three years at 12 of the 21 homes we reviewed. These reviews examined the homes' capacity to provide good quality of care by assessing staffing levels, systems, policies and procedures and quality assurance programs. **By comparison, at the Ministry of Health, Compliance Advisors (nurses) visit private nursing homes annually and carry out comprehensive reviews, which include the tests carried out during nursing reviews as well as tests to determine whether care provided to residents was appropriate to their needs.**

Previously, nursing consultants from the Ministry's head office would review homes independently, in addition to those they were asked to review by the Program Supervisors. However, consultants now visit homes only if requested by the Program Supervisor and if the Boards or Committees of the homes support the review. Additionally, the head office medical consultant had taken on additional responsibilities and had not been able to visit any homes recently.

We again recommended that, in monitoring homes for the aged through inspections by Program Supervisors and reviews by nursing consultants:

- the Ministry develop a systematic inspection process for both Program Supervisors and nursing consultants to inspect and report on all homes over a reasonable period of time. This process should include procedures to ensure that care provided to residents is appropriate to their needs.
- all other monitoring activities carried out by the Program Supervisors be documented to provide a history of their involvement, problems encountered and suggested solutions provided. This record would be beneficial in determining the nature and frequency of inspections deemed necessary for individual homes.
- it would be helpful if Program Supervisors reported the approximate amount of time spent on the major activities of each program. This would

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assist management in making operational and resource allocation decisions concerning the level of staffing and frequency of inspections.

RESPONSE

The Deputy Minister responded on September 14, 1990.

Inspection Procedures Still Inadequate

"Your report states that the frequency and scope of inspection activities are not clearly specified, and that the Audit Team found little documentation with respect to the purpose and frequency of visits by Program Supervisors. Specifically, documentation was lacking with respect to Medical Directors' Reports and inspections by local officials responsible for fire safety and sanitation.

"I am pleased that your report recognizes that responsibility for the day to day management of Homes, including outcomes of resident care and program quality, rests with Boards of Directors and Committees of Management. We acknowledge that this relationship reflects a different approach to that employed by the Ministry of Health with the predominantly private sector Nursing Home Industry.

"I am also pleased with your acknowledgment that 'when the Ministry was made aware of problems regarding the safety and well-being of residents at a Home, the Program Supervisor would direct his/her concerns to Home management and adequately monitor the actions taken.'

"As you are no doubt aware, responsibility for the Nursing Homes and Homes for the Aged Programs has been transferred to the Residential Services Branch of our newly formed Community Health and Support Services Division. Our paper 'Strategies for Change' clearly reflects our policy decision to not only introduce a new and consistent funding arrangement, but to develop consistent program standards and expectations and a new approach to protecting the public interest in these facilities.

"On the latter point, a new accountability relationship is being defined, building on the best elements of our current approaches. Compliance Advisors in each of the Division's 14 local offices will monitor the compliance of Homes for the Aged and Nursing Homes with our new standards on a regularly scheduled basis, and will assist Program Supervisors in managing the relationship between government and these long-term care facilities. An enforcement team, similar to the one that currently deals with those Nursing Homes requiring a more intrusive 'hands on' approach, will be retained centrally to deal with Nursing Homes and Homes for the Aged with which a local compliance management approach is unsuccessful. Our accountability options will be exercised in response to a facility's documented performance, as opposed to its category of ownership.

"In the interim I have instructed my staff in the Operations Division to review their expectations of Program Supervisors with regard to the frequency of their visits to Homes. We will also review our practices in documenting Homes for the Aged compliance with our Ministry's expectations, as well as the fire and health standards enforced by other officials."

Comments on Ministry and Crown Agency Audits

Nursing Reviews Still Infrequent

"The MCSS [Ministry of Community and Social Services] professional consultants, located corporately, work in support of, and in response to a request from Program Supervisors in the field. While these resources are under considerable pressure from the field, the formation of the Residential Services Branch has allowed us to marry the consultative resources of the two former Branches with respect to professionals with backgrounds in Medicine, Nursing, Food Services, and Care Environments. These staff are now available to support operations staff in field offices of the Division in a collaborative fashion. We see this consultative team as a key component of an Operations Support function that will be retained in the Division's Corporate offices in the longer term."

3.5

Management Information Systems, Ministry of Correctional Services

The Ministry's Management Information Systems Branch has developed and is currently implementing a five year Information Systems Strategic Plan, with capital costs of \$28 million and annual operating costs of \$5.7 million. During the 1990 fiscal year, \$5.3 million was spent on Branch operations and \$8.6 million on implementation of the plan.

SUMMARY

SCOPE AND OBJECTIVES

We examined the major functions of the Management Information Systems Branch.

Our objectives were to assess whether:

- computer resources were acquired economically and used efficiently; and
- computer hardware, software and data were protected from loss, misuse or destruction.

CONCLUSIONS AND FINDINGS

RESOURCE ACQUISITION AND USE

For the most part, computer resources were acquired economically and used efficiently. However, we concluded that:

- the decision to specify a single manufacturer for microcomputers resulted in additional costs of \$800,000; and
- some consultants' contracts were being split, thus avoiding the requirement for a Request For Proposal.

INFORMATION SYSTEMS SECURITY

Computer equipment was protected from loss, misuse or destruction but there were significant weaknesses in the protection of computer software and data. We found:

Correctional Services

Management Information Systems Branch

- **inadequate protection of data stored on the mainframe computer against unauthorized modification or disclosure;**
- **no policies to control the length and content of user passwords, allowing for passwords which could be easily guessed by unauthorized persons; and**
- **one microcomputer application not sufficiently protected to prevent unauthorized access to sensitive personal data.**

BACKGROUND

Over the past four years, the Management Information Systems Branch has been primarily concerned with developing an Offender Management System, to be implemented on a mainframe computer and made available to 1,000 terminals in offices across the Province. The Branch estimated that the system, which is the keystone application of the Strategic Plan, will process 113 million transactions a year, tracking offenders while they are the responsibility of the Ministry.

To date, \$15 million has been spent on hardware and software acquisition and system development. Future tasks include linking financial and human resources applications with the Offender Management System to complete the corporate database.

COMMENTARY

RESOURCE ACQUISITION AND USE

Microcomputer Standard Resulted in Increased Costs

In 1986, microcomputers manufactured by a major computer company were specified as the Ministry standard. To the time of our audit, the Ministry had purchased 735 of this company's microcomputers. These were, and continue to be, more expensive than compatible microcomputers of other companies.

Competitive bids from different vendors were obtained, but the vendors were required to quote prices on microcomputers with a specific hardware architecture, manufactured or licensed by the specified company.

We compared the cost of microcomputers purchased to compatible equipment produced by another major manufacturer. **We determined that the Ministry could have saved approximately \$800,000 over the past five years by purchasing from another manufacturer.**

No technical study or business case could be found to justify this reliance on a single source.

Consultants' Contracts Split

Consultant contracts greater than \$25,000 require a Request For Proposal. **Our examination of 32 consultants' contracts indicated that some were being split, thus avoiding the requirement.**

For example, in the following cases, the total amount was more than \$25,000 and the second contract had the same terms of reference as the original contract:

Comments on Ministry and Crown Agency Audits

| <u>Contract #</u> | <u>Start Date</u> | <u>End Date</u> | <u>Contract Amount</u> |
|-------------------|-------------------|-------------------|------------------------|
| Case #1 | | | |
| 1 | January 10, 1989 | February 28, 1990 | \$24,000 |
| 2 | March 1, 1990 | April 30, 1990 | <u>24,000</u> |
| | | Total | <u>\$48,000</u> |
| Case #2 | | | |
| 1 | January 2, 1990 | March 31, 1990 | \$24,950 |
| 2 | April 1, 1990 | May 31, 1990 | <u>24,950</u> |
| | | Total | <u>\$49,900</u> |

INFORMATION SYSTEMS SECURITY

Computer System Security Required Improvement

In our examination of the Ministry's Resource Access Control Facility (RACF) mainframe security, we determined that **196 users were given authorities that exceeded their need for access to the system.**

Using one of these authorities, we were able to easily create a program which could have by-passed all security protection and monitoring. **We could have read, altered or deleted any data stored by the computer.** Such access could, for example, result in changes to personal data such as segregation details or the physical condition of offenders, or unauthorized public disclosure of a young offender's identity and status.

Password Controls Were Inadequate

A primary control used to restrict access to a computer is password protection. Authorized users must identify themselves with a name assigned to them and a corresponding password. Users are responsible for choosing and periodically changing their own passwords.

Because user names are generally known within the Ministry, passwords must be kept in strict confidence. The Ministry places great reliance on password control to prevent unauthorized access through public telephone lines.

To prevent users from selecting passwords that are easy to guess, like a single letter or number, RACF allows security administrators to define the minimum length of the word and the type and position of numbers and characters to be used.

However, this option was not utilized. **We determined that it was possible for users to choose a one-letter password for access to the Ministry's interactive programming facility and the Offender Management System application.**

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Management Information Systems Branch

Inadequate Protection for Sensitive Microcomputer Data

From a list of 26 microcomputer applications, we selected three for examination. We tested access to these applications, which were stored on two microcomputers operated by Human Resources and one operated by Financial Services.

Two of the three were protected from casual access by keyboard locks and passwords. **The third microcomputer, operated by Human Resources, was found in an open office area and was not secured by a keyboard lock.** Back-up diskettes, which contained information about employees' grievances, were left in an unlocked plastic container. The Grievance System was protected by a password, **but it took us less than five minutes to defeat the password protection and print the password and information from the data files.**

Improper protection of the system and the data poses a threat to the privacy of the individuals with names and grievance information stored on the microcomputer.

RESPONSE

The Deputy Minister responded on September 4, 1990.

RESOURCE ACQUISITION AND USE

Microcomputer Standard Resulted in Increased Costs

"In 1988/89, a technical specification and a Request For Proposal (RFP) for the acquisition of 1000 mainframe terminals, 200 microcomputers, over 150 communications controllers and related software and options was prepared and approved by the appropriate external authorities at Management Board, prior to being issued. The comments refer to the microcomputer portion of this tender. The specification for all of the equipment, including the microcomputer components, is completely valid in describing the technical compatibilities required and it does not restrict suppliers to only one manufacturer. The ministry recommended that the contract be awarded to the lowest cost bidders for the various components and this was approved by Management Board.

"In follow up contact with the same suppliers used by the auditors, the ministry has determined that the machine quoted did not have the memory requested and, according to the engineering department of the manufacturer, would not run the software required. In addition, the price used by the audit team did not include the five year on-site warranty requested. The supplier suggested that to meet the specification an alternative model was appropriate and supplied the costs for that model, including the five year warranty. The net result is that the equipment recommended by the ministry and approved by Management Board cost less than the equipment proposed by the audit team.

"This same information was pointed out to the audit team at the exit interview and they agreed that since they could not accurately substantiate their calculations, they would remove it. The errors are still present."

This information was not provided at the exit meeting. To assist the Deputy Minister's understanding of our position, we communicated further on the issue:

Comments on Ministry and Crown Agency Audits

Our comments did not refer only to the RFP for the 200 microcomputers as suggested by the Ministry, although we included these microcomputers in our calculations of the total amount. Since 1986, the Ministry has purchased 735 microcomputers manufactured by one company without establishing the company as a vendor of record as required by Management Board Directives. This company's computers are generally accepted as higher priced commodities.

Our calculations of the costs for the 735 microcomputers were substantiated and conservative and did not reflect any discounts or other concessions which could not be validated. The Ministry's response referred to the value of a single supplier's offer of a five-year on-site warranty, but this cannot validly be included in the cost calculations when other vendors were not given an opportunity to offer similar concessions.

Consultants' Contracts Split

"In case #1, the project was originally estimated to be less than \$25,000 and therefore did not require a written request for proposal. Subsequently, the ministry realized that this amount was underestimated. This original contract was arranged via a verbal quotation method following Management Board of Cabinet Directives. It was subsequently determined that additional work was needed and a verbal quotation method was used for the second contract as well involving a number of quotes. Verbal competitive bids were received and evaluated for both contracts. Administrative processes will be modified to ensure that the appropriate tendering process will be followed in these circumstances.

"In case #2, it was demonstrated by means of documentary evidence at the exit interview, that the terms of reference for the two contracts are completely different. The first contract was to provide a mechanism to measure the consumption of computer resources for capacity planning. Quotations were received from a number of parties. The second contract was to build a method of testing a newly developed system to determine if it was performing correctly. Again, a number of quotes were involved. There is no requirement for a request for proposal for either of the projects. Contrary to the finding in case #2, this was therefore not a case of contract splitting."

INFORMATION SYSTEMS SECURITY

Computer System Security Required Improvement

"The circumstances identified by the audit team were identified by MIS staff internally and action initiated to address them prior to the audit. The action to address the situation has now been completed as planned."

Password Controls Were Inadequate

"By not specifying the minimum length of a password, it allows for a larger number of combinations. We consider this method, currently in use, as more secure than the one recommended by the audit team. However, a review of this parameter, as used by other facilities, will be undertaken."

Education

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Inadequate Protection for Sensitive Microcomputer Data

"The microcomputer systems reviewed by the audit team were not randomly selected but chosen, based upon the usage, as those which would be the most likely to contain sensitive data. The grievance system mentioned is protected by a password that requires specialized technical knowledge to defeat. Because the information contained in the system is public information, available from other sources in addition to the microcomputer system, this password protection is considered adequate.

"Even though the protection of this particular microcomputer is considered adequate, the ministry has anticipated the need for security on computers, especially microcomputers. A ministry policy on information security and an awareness package has been prepared for distribution across the ministry. Implementation is planned to begin after the receipt of the enabling policy under section seven (7) of the Management Board Directives."

3.6

Financial Accountability Framework for Grants to School Boards, Ministry of Education

Transfer payments to school boards from the Ministry of Education totalled almost \$4.5 billion in the 1990 fiscal year. Accountability for ensuring education funds are spent as the Ministry intends is shared between the Ministry and the 123 locally elected boards of trustees.

SUMMARY

SCOPE AND OBJECTIVES

Our objective was to assess the adequacy of the Ministry's planned financial accountability framework. Specifically, we assessed:

- accountability of school boards to the Ministry for the grant money provided.
- accountability of administrators to the boards of trustees.

Our conclusions are based on audit work carried out at Head Office and two regional offices and, at the school board level, on a survey of directors of education and boards of trustees, as well as inspection audits of two school boards.

CONCLUSIONS AND FINDINGS

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

The Ministry has developed sound plans for improving the financial accountability of school boards. However, these plans will not be effective without better co-ordination and monitoring of the work of regional offices.

ENROLMENT-BASED GRANTS

School board external auditors were not given adequate direction on the nature and extent of enrolment audits required.

Comments on Ministry and Crown Agency Audits

Enrolment audits performed by regional staff were not consistent, complete or representative of schools in the region, and did not consider risk.

TRANSPORTATION GRANTS

Although procedures were adequate to ensure that funds were spent on transportation, they were not adequate to ensure that expenditures were controlled.

- . Serious deficiencies included the absence of a limit on the Ministry's share of transportation costs, which provided little incentive to deliver the most cost-effective services.
- . Reviews and audits of board transportation submissions and expenditures were not consistent or effective.
- . Few boards tendered for transportation services.

FINANCIAL ACCOUNTABILITY TO TRUSTEES

Our survey indicated that most boards had adequate arrangements in place to hold board administrators accountable for financial management, although some concern was expressed:

- . Several respondents indicated that they did not have a clear understanding of the roles, responsibilities and powers of administrators, boards of trustees, and the Ministry.

OTHER MATTERS

Although most boards shared some resources with other boards, few sought opportunities or commitments to share further.

The Ministry did not monitor school utilization or compliance with school closure policies.

COMMENTARY

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

Overview

Responsibility for financing education in Ontario is shared between the Province and local school boards. Typically, municipalities fund local boards through property tax assessments. The Provincial share of total funding averages about 40 per cent. The greater the local tax base, the lower the proportion of Provincial funding.

The Ministry's six regional offices provide advice and help hold school boards accountable. At the time of our audit these offices had about 350 staff, half of whom were directly involved in school board finance matters.

Education

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Sound Plans for Improving Accountability to the Ministry

In May 1988, Management Board issued a Directive on Transfer Payment Accountability which set out minimum mandatory requirements. As a result, the Ministry completed a Transfer Payment Accountability report in March 1989.

The Ministry divided its transfer payments into groups, three of which relate directly to school boards, and developed standards of accountability for each group, taking into account the criteria identified in the Management Board Directive and Guideline. The main criteria related to setting objectives and desired results, contracting, reporting results and taking corrective action.

The Ministry's plan for strengthening the accountability relationship with school boards is sound. However, better direction and co-ordination of regional activities such as enrolment and transportation audits are necessary. Our discussions with regional personnel indicated that they wanted and needed more central direction.

The Ministry has made efforts to increase regional accountability and effectiveness, including having internal audit visit the regions and holding Province-wide meetings on enrolment and transportation issues. However, many of the deficiencies reported in the balance of this section stem from a failure to establish effective communication and co-ordination between Head Office and the regional offices.

ENROLMENT-BASED GRANTS

Overview

A significant amount of school board funding is based on enrolment. Consequently, it is critical that reported enrolment be verified by audits conducted at the school level.

The business and finance sections of each regional office are responsible for conducting enrolment audits. Boards are audited on a two- to four-year cycle, depending on the region. Boards which have made inaccurate enrolment submissions may be audited more frequently. If system-wide changes or new initiatives are created, the region tries to visit every board to review the effect on enrolment for that year.

School boards are required to have their financial statements audited annually by external auditors.

Role of Board External Auditors Unclear

We were informed that some auditors performed enrolment testing as part of the financial audit, although the written assurance provided by the auditor did not clearly indicate that they had tested and were satisfied with reported enrolment. As well, **regional staff were unclear as to what procedures external auditors performed to ensure that material errors did not exist in enrolment numbers.**

Comments on Ministry and Crown Agency Audits

This was mainly because the Ministry had not specified its requirements to school board external auditors. If external auditors were required to gain assurances that enrolment figures were accurate, regions could substantially reduce their enrolment auditing. Alternatively, if the Ministry believes it is more cost-effective for its regional staff to perform enrolment audits, external auditors could be instructed not to test enrolment records.

Consistent Audit Policy Required

The regions we visited performed enrolment audits for the 1988 fiscal year in 40 school boards. These audits included visits to 227 schools. **In reviewing the audit files for 15 boards and 86 schools we noted many inconsistencies and deficiencies, including:**

- . failure to use or to complete the standard audit package developed by the Ministry.
- . lack of working papers to document the procedures undertaken.
- . unrepresentative selection of schools for audit. During 1988, of the 21 schools audited in one region visited, only one was a secondary school. In the other region visited a more representative 70 of 206 schools audited were secondary schools. Secondary schools have a greater risk of enrolment errors because part-time students can be misclassified as full-time.
- . inconsistency from officer to officer in the number of students selected for verification within a school.

The dollar value of enrolment errors can be significant. For example, in 1987, errors totalling \$1.9 million were reported by the regions. The majority of these errors involved part-time students who had been classified as full-time, resulting in a higher level of funding from the Ministry. One large board had recorded part-time students as full-time students for three consecutive years.

TRANSPORTATION GRANTS

Overview

School boards set policies to provide transportation to enable students to attend regular and special programs or under-utilized schools. Home-to-school transportation is the largest component of the expenditure.

Each board sends an annual transportation funding submission to its regional office detailing the number of pupils to be transported, length of routes, bus seating capacities and estimated expenditures.

The Ministry funds the amounts approved by the regional offices. For the 1989 fiscal year, the Ministry funded \$370 million in transportation costs. This represented approximately 70 per cent of all boards' transportation costs.

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Transportation costs grew by over 12 per cent in 1989. For the six years from 1983 to 1989, this expenditure increased almost 90 per cent from \$284 million to \$538 million.

Deficiencies in Existing Funding Policy

The 1985 MacDonald Commission Report on the Financing of Elementary and Secondary School Education in Ontario (the MacDonald Report) recommended that the funding formula for transportation be changed "to ensure greater economy and efficiency". The Ministry also recently examined the existing transportation funding policy and identified several problems, including:

- **School boards establish their own transportation policies.** Without Provincial standards, there are different policies on walking distances, conditions under which transportation is provided and the type of transportation used.
- **The low proportion of board funding, together with an open-ended system, provides little incentive for boards to deliver transportation in the most economical manner.** The majority of cost savings from improved administration of transportation would accrue to the Ministry.

In-office Reviews Require Improvement

Each regional office completes an in-office review of transportation submissions by its boards. This review determines the transportation expenditure eligible for grant. **We noted that the objective of the review was clerical rather than analytical and did not include any verification procedures.** For example, at one regional office:

- No analyses of transportation costs were performed, to explain cost per pupil variances among boards. Such analyses could also identify situations requiring further investigation or audit.
- No summary of errors discovered was maintained, so Head Office could not keep regions informed of risk areas for future review or audit attention.

In-board Audits Should Be More Consistent and Effective

In addition to performing in-office reviews, the regions are expected to undertake in-board audits to verify transportation information. **In the two regions we visited, the number of transportation audits, the level of documentation and the sample sizes differed significantly.** For example:

- One region completed two audits in 1988/89, its first in five years.
- The other region completed ten audits for the 1988/89 school year, of which two were not yet finalized. Adjustments totalling \$214,000 were recorded.
- One officer examined only five routes out of approximately 500 to verify the reasonableness of kilometres claimed by one board.

Comments on Ministry and Crown Agency Audits

We recommended that the Ministry apply consistent standards that detail the percentage of boards to be audited, the sample sizes to be used, and the documentation to be provided. Selection of boards should be based on per pupil cost comparisons among boards and a risk analysis that considers factors such as high growth, recent contract changes and unresolved issues from previous audits.

Verifying the accuracy of transportation information reported to the Ministry is important. However, audits could also identify significant cost savings for the Ministry and boards. For example, a school board superintendent recently completed a study of transportation costs charged to three boards by bus contractors. During the summer of 1989, all routes were reviewed to ensure kilometre charges were correct. The study concluded that the boards were overcharged by over \$150,000, of which about \$130,000 was returned to the Ministry.

In one of our board inspection audits, we identified over \$1 million that could be saved annually through a combination of tendering, more fully utilizing existing buses, and more efficient routing. The board itself had also identified opportunities for significant cost savings.

Given the size of the Ministry's share of transportation costs, we believe audits should focus more on cost-effectiveness. Regions should examine the cost-effectiveness of board transportation systems as part of each audit, including tests of kilometres and hours claimed, and routing and vehicle selection. They should also report any innovative board initiatives for reducing transportation costs for consideration by other boards.

Few Boards Tender for Transportation Services

About 25 per cent of boards responding to our questionnaire used tendering in acquiring transportation services. The reasons given for not tendering included:

- tendering would create a low-cost competition at the expense of safety and reliability.
- only one operator in the region could provide the service required.

However, one respondent indicated that over \$300,000 had been saved by a small board that tendered its bus contracts. Tendering can be a viable alternative provided that service and safety requirements are clearly specified in the Request For Proposal. Moreover, whenever competition is restricted, including where one company has been allowed to gain a monopoly, adequate regard for economy and fairness cannot be demonstrated.

Of the two boards we audited, one tendered for services every three years, although the tendering process was deficient. The other negotiated for services, usually with existing contractors.

Education

Grants to School Boards

FINANCIAL ACCOUNTABILITY TO TRUSTEES

Overview

In addition to examining the accountability relationship of school boards to the Ministry of Education, we also examined the accountability relationship of school board administrators to trustees. Our questionnaire was sent to 50 geographically dispersed boards that included a cross-section of small (less than \$50 million), large, public and separate boards.

In total, 41 directors of education (82 per cent of the sample) and 27 boards of trustees (54 per cent) responded to the questionnaire. We also received seven responses from minority language sections.

The following two sections summarize the results of our survey. A more detailed summary of the responses to our questionnaire was provided to the Ministry.

Adequate Arrangements for Financial Management

Our survey results indicated that school boards had adequate policies and processes in place for responsible financial management.

Sound financial management requires a high degree of cooperation and effective communication between trustees and administrators. Overall, respondents felt communication was very effective. Only one board surveyed reported a concern.

Financial accountability starts with the budget review process. Over 90 per cent of respondents indicated that trustees were provided with supporting information on major items and increases, comparisons of approved budgets to actual expenditures, and budget transfers. The majority of respondents strongly believed that budget transfers which are significant either in nature or amount should be approved by the board.

Relevant and timely financial information is also necessary. Most trustees indicated they received key financial information on a monthly basis. The types of reports received included monthly expenditure reports, financial statements and status-of-budget reports. Some smaller boards received monthly cheque registers from their administrators.

We looked for specific control and support arrangements in place to assist trustees:

- Over 70 per cent indicated that external expertise was used by trustees to support the decision-making process.
- More than 90 per cent responded that compliance and special reviews were performed by their board's external auditors.
- More than 75 per cent responded that an internal audit or operational review process was in place. However, only 50 per cent of boards with an internal audit function issued reports to trustees.

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- . About 60 per cent stated that they received performance reports on individual departments or aspects of administration.
- . Only 42 per cent responded that they had trustee audit committees, or committees which dealt with audit matters. However, almost 65 per cent indicated that they met regularly with their external auditors who explained the nature and results of audits conducted on their behalf.

Respondents were also asked to rate the effectiveness of each arrangement they had in place. Most ratings fell between three and four out of five. Trustees' and directors' ratings were fairly consistent, although trustees thought more highly of audit committees than did directors.

Measuring and evaluating managerial performance is an important part of the process. Almost 70 per cent of respondents had a policy in place to evaluate the performance of the director of education. Only 50 per cent of small boards had such a policy. Although most boards included financial management in their performance evaluation criteria, eight boards stated that they did not.

Evaluation of other senior administrators, with or without trustee input, is equally important. About 80 per cent of boards had annual appraisals completed for their other senior administrators.

Greater Clarity of Roles, Responsibilities and Powers Needed

We also examined the extent to which roles and responsibilities of administrators, trustees and the Ministry were clearly defined and understood.

A majority of boards had established by-laws outlining the roles, powers and responsibilities of the board of trustees and its committees. As well, they had policies which defined authority and responsibility for the major expenditure areas, including purchasing/tendering, transportation, staff compensation, asset protection and the overall budgetary process.

However, the legal and policy framework governing the administration of education in Ontario is complex. In addition to the Education Act, there are myriad regulations, contracts, policies and procedures.

Respondents to our survey indicated, on average, a good understanding of their own powers and authority, responsibilities and duties, and those of the Ministry and their counterparts. However, eight small boards and five large boards rated their understanding quite low.

Comments included the following:

- . "Because the Education Act is vague, the Ministry should provide documentation to school boards on the powers and responsibilities of trustees."
- . "Trustees find it difficult to establish the line between developing policy and administering policy."

Education

Grants to School Boards

- "The grant system is not understood by trustees. If trustees are ultimately responsible, they should have a working knowledge and comfort with the grants and impact."

Concern about the clarity of trustee powers and responsibilities was also expressed by the Select Committee on Education (Third Report of the Select Committee on Education, January 1990) and by a number of individual trustees.

OTHER MATTERS

More Sharing of Board Resources Should Be Explored

The opportunity often exists for a board to reduce costs by sharing resources with another board or another publicly funded body. The Macdonald Report recommended that boards form cooperative service units to provide and deliver non-instructional support services.

Although our questionnaire did not supply enough information to allow us to measure the depth of sharing, **many boards reported at least some sharing of resources in areas such as transportation, information systems, purchasing of supplies and professional development.**

However, the majority of boards felt that there were few opportunities and little need for further sharing of resources because:

- they were already large enough to benefit from economies of scale such as volume purchasing;
- sharing was geographically impractical;
- it would result in a loss of autonomy and control;
- there was too much competition with neighbouring boards; or
- there were insufficient Ministry incentives for sharing.

There were also boards that indicated firm commitments to sharing. One board stated that it met regularly with two other neighbouring boards as a tri-board committee. Areas of cooperation were discussed at every meeting and when an opportunity arose, the three boards cooperated.

We recommended that the Ministry continue to promote cooperation and sharing among boards. Its recognition and encouragement of such initiatives would help ensure that education services were being provided in an economical and efficient manner.

Closer Monitoring of Under-utilized Schools Needed

Ministry of Education guidelines require boards to develop a policy for school closure because of low or declining enrolment. According to the guidelines, the policy must outline the conditions under which a school will be considered for

Comments on Ministry and Crown Agency Audits

closure and provide a minimum time period between identification of a school as a candidate for closure and the final decision of the board. Boards are required to file their closure policies with the regional office.

The regions made no attempt to ensure that boards were complying with their closure policies or to monitor school utilization rates. In addition, the regions did not normally try to influence the closure decision as it is a board responsibility.

Maintaining under-utilized schools can be very costly to both local ratepayers and the Ministry. For example, in one of our board inspection audits we noted that an external consultant had estimated that \$1.7 million could be saved annually by either closing a particular under-utilized primary school or transferring it to another board. A secondary school that the consultant had also recommended for either closure or transfer had a utilization rate of less than 35 per cent.

Since the Ministry usually funds 60 per cent or more of all capital projects as well as a significant portion of the boards' ongoing operating costs, we believe it should become more involved in monitoring school utilization and adherence to closure policies. In addition, where utilization is unjustifiably low, the Ministry should continue to try to influence board actions through the funding mechanism itself, such as by providing a lower level of grant funding to boards which maintain under-utilized schools.

Teacher Wage Negotiations

On average, teachers' salaries and benefits represent almost 70 per cent of a school board's budget. Contracts are negotiated separately by each board of trustees.

A number of trustees, administrators and Ministry personnel have expressed concerns with the present localized collective bargaining system.

- **In effect, all teachers obtain similar contract provisions despite separate negotiations. Teachers at one board negotiate a contract which serves as a benchmark for those at surrounding boards.**
- **Negotiations leading up to agreements can be very costly for all the Province's school boards.** Costs include food, accommodation and wages for negotiators and other professionals, and the considerable amount of trustees' and administrators' time spent working on the negotiations.

This issue was addressed in the Macdonald Report, which recommended that "the School Boards and Teachers Collective Negotiations Act be amended to provide for Province-wide bargaining of salaries and employee benefits, including the number of days worked, between affiliates of the Ontario Teacher's Federation and trustee associations."

At the time of our audit, the Ministry had not dealt to any extent with this recommendation.

Education

Grants to School Boards

RESPONSE

The Deputy Minister responded on September 14, 1990.

FINANCIAL ACCOUNTABILITY TO THE MINISTRY

Sound Plans for Improving Accountability to the Ministry

"The ministry welcomes your endorsement of its plans. The ministry will meet its commitments as included in its March 1989 report to Management Board on Transfer Payment Accountability."

ENROLMENT-BASED GRANTS

Role of Board External Auditors Unclear

"The ministry will explore, with the Canadian Institute of Chartered Accountants, the feasibility of introducing procedures, similar to those used by external auditors for Universities."

Consistent Audit Policy Required

"These recommendations are accepted and will be implemented. The ministry will introduce effective September 1990, the accountability measures as outlined in the Ministry Transfer Payment Accountability report to Management Board (March 1989). These measures will ensure that enrolment and transfer payment audits meet province-wide standards."

TRANSPORTATION GRANTS

Deficiencies in Existing Funding Policy

"This funding issue is under active consideration in the overall context of the General Legislative Grants."

In-office Reviews Require Improvement

"The ministry concurs with this recommendation. The ministry is in the process of establishing standardized checklists for use by the Regional Offices for the school board transportation submissions for 1990/91."

"The in-office standardized checklist will assist the Regional Offices to identify school board submissions with significant errors for in-board audit consideration."

In-board Audits Should Be More Consistent and Effective

"Standardized audit methodologies across the Regions are being developed. Consideration will be given to addressing the issue of efficiency and cost effectiveness."

Comments on Ministry and Crown Agency Audits

Few Boards Tender for Transportation Services

"The ministry will provide clear direction to all school boards on tendering for transportation services."

FINANCIAL ACCOUNTABILITY TO TRUSTEES

Adequate Arrangements for Financial Management

"The ministry is pleased to note that the findings from the questionnaire indicate that communications between trustees and administrators are very effective."

"The ministry notes that the survey respondents indicate very strong support for the adequacy of the budget processes in their boards."

"The ministry is pleased to note that trustees are generally satisfied with the adequacy of their board's financial information and reporting procedures."

"The ministry is pleased that the findings from the questionnaire indicate general satisfaction with the adequacy of board's control and support mechanisms."

"The ministry supports the principle of a formalized performance evaluation system for all employees."

Greater Clarity of Roles, Responsibilities and Powers Needed

"In consultation with trustee organizations, the ministry will consider the appropriateness of further clarification to the Education Act."

OTHER MATTERS

More Sharing of Board Resources Should Be Explored

"The ministry endorses the concept of school boards sharing resources and will continue to promote cooperation and sharing among boards. The ministry will communicate its support in a memo to school boards on this and other issues raised by the Provincial Auditor."

Closer Monitoring of Under-utilized Schools Needed

"The recommendation will be considered in the review of the Capital Grant Plan."

Teacher Wage Negotiations

"This will be examined as part of any review of Bill 100."

Government Services

Toronto Development Centre Computer Facility

3.7

Observations on Computer Services and Security, Toronto Development Centre, Ministry of Government Services

The Toronto Development Centre is a computer data facility administered by Computer and Telecommunications Services (CTS). To recover costs, the Centre sells time and services on its mainframe computers, primarily to Ontario Government ministries. For the 1990 fiscal year, the Centre projected revenues of approximately \$13 million and operating costs of approximately \$11 million.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Centre's operations and related supporting services at CTS' head office included assessments of:

- . extent of user satisfaction with processing services; and
- . adequacy of security measures.

CONCLUSIONS AND FINDINGS

USER SATISFACTION

We concluded that the Centre provided reliable processing services to its customers.

SECURITY MEASURES

While several security features were in place, measures to protect against unauthorized access were not sufficient. For example:

- . some staff were bypassing established security procedures; and
- . the security monitoring system was neither properly maintained nor fully utilized.

BACKGROUND

CTS was established by the Ministry to provide inexpensive, secure and reliable computing and telecommunications services to Ontario Government ministries. CTS administers three mainframe data centres: the Toronto Development Centre, the Toronto Production Centre, and the Kingston Regional Computer Centre.

The Development Centre provides processing facilities for applications being developed or tested. In addition, the Centre processes some print runs, such as cheques for payments to vendors, social service recipients, pensioners and Ontario Government employees.

COMMENTARY

USER SATISFACTION

Reliable Service Provided

CTS' shared processing services have been growing over the past several years. However, during the same period, CTS lost some customers for various reasons,

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including the relocation of some ministries and the shift towards mini and microcomputers.

In order to ascertain the current level of user satisfaction, we conducted a survey. From a list of 19 user ministries, we interviewed 10 individuals who were considered knowledgeable customers.

The users were satisfied with system response time, quality, performance and availability. They found the service reliable.

SECURITY MEASURES

Computer Security Violations Monitored

A security software package called the Resource Access Control Facility system is used to provide logical (user access) security for the Centre's mainframe computer. This system requires customer accounts and passwords to be defined before anyone can use the computer and also records unauthorized attempts to access the computer system. We reviewed the Centre's implementation and monitoring of the security software.

System violations and activities were properly recorded and monitored. An authorized user name and a matching password were required to use the computer. System libraries were well protected.

Adequate Controls over Operating System Changes

The Change Management process is a key support function provided by CTS to ensure the Centre's security. It controls changes to the system software, ensuring that all changes are authorized and authorized changes do not adversely affect the system. All changes to the computer and telecommunication environments are introduced through the Change Management process.

Requests were properly documented. The change process was adequately controlled.

Disaster Recovery Plan Adequate

Although a specific Disaster Recovery Plan manual had not been printed, the operations manual contained detailed procedures for emergency situations, such as burglaries, riots, bomb threats, medical emergencies and fires. This documentation constituted an adequate Disaster Recovery Plan.

Physical Security Lapses

The staff working around the printer room and the tape library room were bypassing established security procedures.

We observed the following lapses in physical security:

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Toronto Development Centre Computer Facility

- The door leading to the printer room was kept open on a regular basis. This is an area where potentially sensitive Government reports and large numbers of cheques are printed. Sometimes the door was held open by a piece of wood and the room left unattended. This was done for the convenience of staff, who were moving materials in and out of the room. On many occasions, the door would appear to be closed but was not locked because there was no spring to force it shut. Centre management were aware of this problem, but no action was taken to correct it.
- On two occasions, we observed that the door leading to the tape library room was held ajar for an extended period of time. Many of the tapes stored in this room contain sensitive personal information or back-ups of other important Government data.
- On one occasion, we observed that unerased computer tapes were left unattended in open bags in the corridor of the 18th floor during a lunch hour. Anyone could have taken the tapes and accessed the data stored on them.
- Visitors to the Toronto Development Centre offices were generally not required to wear a visible "visitor" tag. As a result, on several occasions, visitors with unhindered access to the Centre's offices were discovered only after they requested information from members of the audit team.

Physical Security Monitoring Systems Inadequately Maintained

In addition to Ontario Government security officers stationed in the building, there are three physical security systems that protect the Toronto Development Centre site: a magnetic, card-controlled lock system, a door alarm system, and a video camera system, supplied by the Ministry of the Solicitor General.

The card-controlled lock system was not properly monitored or maintained. We observed the following deficiencies:

- Although staff changes had occurred, these had not been reflected in the database that controlled staff access. In fact, the database had not been updated since April 1, 1989, nine months prior to our audit in this area. Hence unauthorized individuals could gain access to the site.
- The system was set up to provide hard copy records of entry and exit activities, allowing management to regularly monitor any unauthorized access. However, these records were not being printed.

The video camera system and the door alarm system were both disabled. There were 10 closed-circuit video cameras installed in various areas on different floors. These cameras were connected to a video monitor situated in a security post just outside the computer room. There was also a panel for a fully functional alarm system.

Both systems were disabled, partly due to changes in the use of office space and partly due to the absence of a security officer to monitor the door alarm.

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We were informed that financial constraints had forced the Ministry of the Solicitor General to reduce the number of security officers stationed at the building. Since no CTS staff were available to monitor the video camera system or the alarm panel, they were turned off. **Although security officers could have monitored this system from their command post in the basement of the building, the monitor and alarm panel were never moved to that location.**

We were informed that a Request For Proposal had been issued for a new security system, and CTS management would do a study to determine the level of security appropriate for the data centre.

RESPONSE

The Deputy Minister responded on June 6, 1990.

Physical Security Lapses

- *"The print room has limited storage area for print stock which necessitates frequent trips between the adjacent stock room and the print room. Toronto Development Centre (TDC) management has met with all TDC staff and advised them of the physical security requirements of keeping the door to the print room locked when they are moving materials from the adjacent stock room, if the door is going to be left unattended. This is being monitored by TDC management.*

"The door frame to the print room which controls the spring action of the door was found to be off centre. A letter was sent to the building manager on May 7, 1990, requesting realignment of the door frame. Building management contractors have begun work on the frame. TDC staff have been instructed to ensure that the print room door is locked at all times when not in use.

- *"The Tape Library door was kept ajar for an extended period of time to facilitate the relocation of tape media and tape racks from the 18th to the 19th floor, at 25 Grosvenor Street. At all times during the relocation period TDC staff were in the immediate area which data centre management felt was sufficient coverage to prevent unauthorized access to the Tape Library.*
- *"Data Centre management agrees that this (unattended tapes) was a lapse in the proper tape handling security procedures. The tapes in question were scheduled for destruction; notwithstanding, the tapes should not have been left unattended in a corridor. Tape Library staff were advised of the infraction and in future no tapes will be placed outside of the Tape Library area. TDC management will continue to monitor this situation.*
- *"The Toronto Development Centre is located on the 17th, 18th and 19th floors of the George Drew Building. Public access to the TDC offices is available on the 17th and 18th floors. The area in question is office space on the 18th floor which does not have a reception area, and is in close proximity to the Input/Output section which has a requirement to provide public access. TDC management agrees that there is a potential exposure to the office space located on the 18th floor. The main door to the office space*

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Land Acquisition and Capital Construction

is equipped with a card entry security system which was used to restrict access after business hours and on weekends. The access to this area has now been changed to 24 hours a day restricted access."

Physical Security Monitoring Systems Inadequately Maintained

"The monitoring and maintenance of the existing card-controlled lock system will be improved immediately. This system will be replaced in October by CTS' new card-controlled access system.

Re: deficiencies in the system:

- *"The database has been corrected. The new system administrator has been trained.*
- *"Continuously printing access information is not necessary, as all the information is available in the database. A paper copy can be prepared, if required.*

"The video camera system and the door alarm system belong to the Ministry of the Solicitor General (MSG). It is our understanding that these systems were disabled by MSG due to funding constraints. In CTS' opinion, the current card-controlled lock system is adequate until the new system is installed.

"The new system will be monitored by CTS staff, however, CTS will obtain quotations on the cost of duplicating the video monitors and alarm panel in the security officer's command post and also approach MSG about undertaking this responsibility."

3.8 Management of Land Acquisition and Capital Construction Generally Adequate, Ministry of Government Services

The Ministry of Government Services is responsible for the acquisition of all real property, except land required for highway use. It also administers the construction and renovation of buildings for all Government ministries.

During the 1990 fiscal year, land acquisitions totalled \$26.3 million. In addition, approximately \$120 million was spent on 60 active construction projects. The total cost of these projects is expected to be approximately \$530 million.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives were to assess whether:

- land purchases were necessary and acquired at fair market value;
- the feasibility of the selected construction options was adequately demonstrated; and
- procedures were in place to ensure construction projects were adequately managed.

Comments on Ministry and Crown Agency Audits

CONCLUSIONS AND FINDINGS

LAND ACQUISITIONS

Land purchases were necessary and acquired at fair market value.

FEASIBILITY STUDIES

For the most part the feasibility of selected construction options was adequately demonstrated. However, in some instances there were inadequate assessments of work to be completed.

- **The estimated cost of retrofitting an old building had escalated from \$4.8 million to \$8.5 million.**

PROJECT MANAGEMENT

While the Ministry's procedures were generally satisfactory, we noted some cases where procedures and project management could have been improved.

- **Reasonableness of Ministry cost estimates and contractors' bids could not be determined because of insufficient information.**
- **Invoices submitted by construction management firms were not adequately reviewed before payment.**

BACKGROUND

Each construction project is under the direction of a project manager who plays a key role in providing an integrated approach to project delivery from inception to completion. Architectural and engineering services are normally provided by outside firms on a contractual basis with the Ministry acting in an advisory capacity. Construction work is awarded through a competitive selection process, normally to the lowest qualified bidder.

At the time of audit there were 60 active projects under construction and approximately 40 projects which had received program approval from Management Board. The estimated construction value of all projects was approximately \$1.1 billion.

COMMENTARY

LAND ACQUISITIONS

Before acquiring land, ministries are required by Management Board Directives to obtain two appraisals for each property expected to be valued at over \$300,000. Only one appraisal is required for properties likely to be valued under that amount.

The Ministry uses the services of both its own appraisers and appraisers from the private sector.

Our review of five real estate acquisitions for capital construction indicated that the properties were acquired to meet established program needs and were based on at least two appraisals.

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Land Acquisition and Capital Construction

FEASIBILITY STUDIES

Overview

Accommodation requirements are primarily determined by the client ministries. These normally include the number and size of rooms and other features required to meet program needs.

When accommodation requirements have been determined, the Ministry of Government Services reviews various alternatives. This may include an evaluation of the suitability of different sites, as well as an analysis of whether to construct a new building or renovate an existing structure.

The selected option is presented to Management Board for approval.

Costs Exceeded Approved Estimates

As a project progresses from inception to construction and completion, the Ministry prepares various estimates to evaluate and control costs.

In a number of instances, actual construction costs significantly exceeded the earlier estimates on which both the Ministry's and Management Board's assessments and approvals were based. For example:

- In September 1986, the Ministry considered four options for acquiring office space: leasing new premises; constructing a building at a new site; continuing existing lease arrangements; or retrofitting the former Pine Ridge Hospital facility in Aurora. The Ministry estimated that retrofitting the Hospital would save approximately \$700,000 over 25 years when compared to the next lowest cost alternative of constructing a new building.

In January 1987, the Ministry obtained Management Board approval to proceed with renovation of the facility at a total cost of \$4.8 million.

However, costs increased due to unforeseen problems and, in October 1988, Management Board approved an increase in the budget to \$6.9 million. **In March 1990, the Ministry advised Management Board Secretariat that its estimate to complete the project had increased to \$8.5 million.** The Ministry also stated that "on the basis of the current (cost) information, retrofit is no longer the most advantageous financial option."

Although there were a number of factors which contributed to the significant cost increases, one of the most important was the inadequate assessment of the work to be completed. For example, while the Ministry originally assumed that it could use the original site services and mechanical system, subsequent detailed analysis proved otherwise. The original estimate for mechanical work was approximately \$1 million. However, the actual cost exceeded \$1.5 million.

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- The Ministry obtained Management Board approval to construct a young offender observation facility at a construction cost of \$3.4 million. Based on supplemental Management Board approval, the contract was awarded to the lowest bidder for \$4.2 million.

Most of the increased cost was due to higher than estimated electrical and mechanical costs. While the Ministry estimated electrical and mechanical work at \$220,000 and \$745,000 respectively, the amounts in the lowest bid were \$465,000 and \$962,000. We were advised that costs were higher than estimated because of under-estimates, design errors and market conditions.

Also, in discussions with Ministry staff, we learned that the design and construction of the roof of the building may have been much heavier and more expensive than needed. While some roof restrictions did apply because of the facility's use and fire regulations, there was no evidence that alternate roof designs were considered.

As well, duplicate mechanical controls were installed in two heat recovery units because they were included in two different sets of specifications. One set of controls had been disconnected and was to be removed.

- In December 1987, Management Board approved the renovation of a building and adjacent construction for the Ministry of Correctional Services' new head office in North Bay at an estimated cost of \$22 million. At the time of our audit the estimated cost had increased to \$30 million.

Some of the cost increase was attributed to the inadequate assessment of the renovation portion of this project.

PROJECT MANAGEMENT

Good Management Practices Reduced Costs

On a number of projects, proper management by the Ministry resulted in savings to the Government. For example:

- The Ministry estimated that approximately \$7 million would be saved as a result of changing its construction approach for the new office building in Sudbury.

The lowest stipulated bid for construction to the Ministry's specifications was \$27.5 million, which was well above the Ministry's pre-tender estimate of \$20.5 million. Rather than awarding the contract to the lowest bidder, all bidders were invited to submit proposals using a design-build approach. Under this approach, contractors were required for a fixed sum to design and construct a building which met the Ministry's requirements. The successful bid was \$20.2 million.

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- Value engineering studies were introduced for three of the Northern Relocation projects. In these studies independent consultants reviewed the design and construction proposed by the architect and suggested possible changes which could reduce costs or improve building utility. For example, the study undertaken for the Thunder Bay office building cost \$42,000. However, it was estimated that when the recommendations were implemented, savings in construction costs would total approximately \$2 million.

Reasonableness of Accepted Bid Often Not Established

Contracts for capital construction projects are awarded through a competitive tendering process. With few exceptions, contracts are awarded on the basis of the lowest bid by an acceptable supplier. **To ensure that bids are reasonable, Ministry staff and consultants also prepare a series of estimates culminating in a pre-tender construction estimate.**

However, contracts were often awarded for amounts significantly higher or lower than the Ministry's cost estimates with no documented explanation for the differences. **The Ministry's pre-tender construction estimates and contractors' bids lacked sufficient detail to enable a determination of reasonableness.** For example, most bids only specified the total construction costs.

- In July 1987, the Ministry estimated the cost of building a new facility, to be temporarily used as a laboratory, at \$2.8 million including \$630,000 for mechanical work.

In October 1987, the Ministry awarded the construction project to the lowest bidder for just under \$3.8 million. This included almost \$2 million for mechanical work, more than triple the Ministry's estimate.

We questioned how the Ministry could have determined whether the costs were reasonable since there was a lack of detail in both the Ministry's estimate and the accepted bid.

- In some instances, construction contracts were awarded for amounts significantly less than estimated. For example, in November 1986, the Ministry estimated the cost of constructing an office complex in Downsview at \$17 million, including approximately \$4.3 million and \$2 million for mechanical and electrical work, respectively.

However, in January 1987 the Ministry awarded the work to the lowest bidder for \$13.3 million. This bid included \$2.5 million and \$1.2 million for mechanical and electrical work, respectively. Each was approximately 40 percent below the Ministry's estimates.

Neither the Ministry's estimate nor the low bid was sufficiently detailed to permit effective review. We could find no evidence that the Ministry analyzed the differences.

Comments on Ministry and Crown Agency Audits

Poor Controls over Construction Management Agreements

In two projects reviewed, the Ministry retained a construction management firm to manage the construction process. This firm provided a number of services including scheduling, estimating, tendering and awarding subcontracts and controlling costs.

Construction management is considered appropriate in large renovations where some uncertainty exists and flexibility is required. This approach permits a construction manager to accommodate unforeseen design or scope changes by tendering subcontracts in stages. It can also speed up the project since some work can be completed before the design of the project has been finalized.

In both cases reviewed, the construction management contract was awarded solely on the basis of the lowest management fee bid. There was no evidence that the firms' competence was assessed before awarding the contract. In addition to the management fee, the firms were paid for the labour and materials they supplied. These firms had an incentive to supply materials and complete work since they were paid for their total costs plus a percentage profit. To the extent that this occurred, materials and labour were not acquired competitively.

In these two projects, the management charges for materials and labour were a significant part of the total construction costs.

- . In one instance, one firm was selected based on a bid of \$28,000 for managing a project. However, the firm received an additional \$1.4 million for material and labour it supplied. This accounted for more than 20 per cent of the total project costs.
- . In the second case, payments to the management firm were expected to total \$3.7 million or just under 15 per cent of total construction costs. This represented approximately 15 times the \$241,000 management fee on which the contract was awarded.

We acknowledged that there was an expectation that some work would be performed by the management firm's staff. However, in the absence of maximum ceiling prices or cost controls in construction management agreements, particularly with respect to a firm's use of its staff, **it is critical that the Ministry ensure billings for these services are reasonable.** In addition, where these billings form a significant part of the total cost, competitive bids should be obtained where possible.

Our review of a sample of payments to the management firms found:

- . **There was no evidence that the Ministry performed a detailed review or approved charges for materials and labour supplied by the firms' staff.**
- . One management firm marked up the labour charges by ten per cent for overhead and five per cent for profit. These markups, which totalled approximately \$96,000, were not specified in the contract.

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RESPONSE

The Deputy Minister's response, dated September 14, 1990, included the following comments.

GENERAL

"I am pleased that several of the Ministry practices which the report has found to be deficient have already been improved or discontinued. Although I had hoped that this audit might address some of the innovations that have been applied to the capital program in the past three years, I believe the findings are fair."

FEASIBILITY STUDIES

Costs Exceeded Approved Estimates

"The Management Board submission in September 1986 contained options related to the potential re-use of a surplus property as a method for providing office space in the Aurora area.

"The observations reported by the Auditor were known previously to the Ministry and documented in considerable detail by the Ministry in its March 1990 report to the Management Board Secretariat. This information was identified by the Ministry and was shared openly with the audit team.

"The Management Board decision to proceed with the retrofit project at Pine Ridge, Aurora, was based on several criteria. The recommended alternative was chosen not solely because it was less expensive, but because:

- 1. It retained a building with architectural and historic importance;*
- 2. It satisfied local community concerns regarding the retention of this building and the proposed new uses;*
- 3. It permitted the expeditious provision of more functional office space to replace leased space; and*
- 4. It contributed to the viable and continuing use of well located property for provincial government programs.*

"On major construction projects, especially those involving the re-use of existing buildings, decisions must be made sequentially based on the amount and accuracy of information available at the various stages of planning. The Ministry acknowledges that early cost estimates were not as comprehensive or as accurate as those prepared after further analysis was completed, and therefore disagrees that there was 'inadequate assessment' of work to be completed.

"The cost increase resulted from more extensive repairs to the structure which were not anticipated and which obviate future expenditures; extensive upgrading of the site services; and higher bids received during an extremely inflationary period in the construction market.

Comments on Ministry and Crown Agency Audits

"During the design stage detailed analysis indicated that the site services were inadequate to meet fire-fighting and life safety requirements for the new uses and had no spare capacity. Additional capital investment in these site services ensured that the new facilities are adequately protected, that future development can be accommodated and that repair costs will be minimized in the future.

"The construction contract for the [young offenders observation] facility was recommended for award on the judgement of experienced Ministry staff that it represented a fair price for the facility based on the requirements in the bid documents and on prevailing market conditions.

"The Ministry acknowledges that errors in the documents prepared by the architect led to increased costs and to the ultimate termination of his contract.

"Several design options for the Head Office, Ministry of Correctional Services, in North Bay were developed and considered by Senior Management. The scheme chosen allows the retention and continuing use of one of the three remaining provincial Teachers' Colleges from the early years of this century.

"Construction was started as soon as possible to support the goals of the Northern Ontario Relocation Program with full recognition that repairs to this heritage structure would be extensive. These repairs were more extensive and costly than could have been reasonably expected or predicted by the state-of-condition report."

PROJECT MANAGEMENT

Good Management Practices Reduced Costs

"The Ministry is pleased to see the recognition given to these two innovations designed to reduce cost and improve the effectiveness of these projects."

Reasonableness of Accepted Bid Often Not Established

"Throughout the progress of the audit, Ministry staff explained normal industry practice related to the preparation of cost estimates and the evaluation of bids prior to the award of contract. It is a normal occurrence in the construction industry for bid prices to be different from the pre-tender cost estimate.

"Pre-tender cost estimates are prepared through careful analysis including a detailed take-off of materials and quantities contained within the working drawings and specifications. These cost estimates generally are based upon input prices provided by suppliers to the construction industry. Bid prices on the other hand, reflect the unique situation of each bidding company with regard to the prices it can negotiate for materials and equipment, the amount of labour required to undertake the construction and the productivity levels managed by the company. Finally, a profit margin judged by the company on the basis of their current business position and their eagerness to obtain the contract is included.

"Bid prices are highly volatile and reflect both the emotional and economic conditions prevalent within the construction industry at the exact time of the bid closing.

Government Services

Land Acquisition and Capital Construction

"It is impossible to estimate in advance with complete accuracy the manner in which the industry will respond to the bid called and therefore, it is impossible to produce a pre-tender estimate with 100% foresight.

"In all cases, valid bids are analysed and compared against the pre-tender estimate and against the range of bids received. Unreasonably high or low bids encourage further evaluation. Ultimately, the bids represent the price that must be paid within a free and open market to complete the work contained within the documents.

"Based on the expertise and judgement of the Ministry staff, a recommendation is made for the award of contract including an evaluation of the bid price in relation to the approved project budget. Where the bid prices appear to reflect current market conditions, where delay for re-design is unacceptable, and where bid prices exceed the available project budget, a Management Board submission is prepared to seek an increase in the project budget. A detailed explanation of the reasons supporting the recommendation for award must be included in these submissions.

- The bids received on the [office complex] at Downsview indicate clearly that the market conditions may change dramatically and that the Ministry can benefit from a more competitive market place. It should be noted that this building was completed successfully in 1989 with significant cost 'savings' to the Province below the initial estimate and the approved project budget."*

Poor Controls over Construction Management Agreements

"The Ministry accepts the discussion on the use of the construction management approach. However, in most project delivery methods . . . tight cost control is achieved through a comprehensive project management plan including cost estimates and monitoring of the contract award prices for tendered packages throughout the progress of the work.

"It is standard Ministry practice and in the best interest of the Ministry, for the construction manager to undertake work judged necessary to facilitate progress of the project (prevent delay) or to complete work packages that cannot be tendered efficiently. By using the construction manager, delays and thus additional costs are avoided.

"Prior to the start of this audit, the Ministry had already revised its policy so that construction management firms will no longer be selected on the basis of price competition for the management fee alone. It should be noted, although it is not mentioned in the audit report, that previous ministry practice involved the prequalification of construction management firms as a first step before short-listed firms were invited to submit cost competitive proposals to undertake the work.

"This two stage prequalification process ensured that only firms with appropriate experience and capability were invited to bid for the projects.

Comments on Ministry and Crown Agency Audits

"The Ministry under these contracts did select the construction management firms on the basis of the lowest bid for their management fee. However, the value of this management fee bears little relationship to the ability of the firms and no relevance to the amount of construction work carried out by the forces of the firms themselves.

"The Ministry agrees that 'it is critical that Ministry staff ensure billings for these services (provided by the construction management firm) are reasonable'. All work done by the construction management firm itself or sub-contracted out is discussed in detail with the Ministry's staff experts, according to an overall project plan, and is approved by Ministry staff to ensure best value.

- . Payment approval and processing procedures within the Ministry require every construction invoice, regardless of the contracting method, to be reviewed in detail by the architect, certified for payment and recommended to the Ministry for approval.*

Within the Ministry, project staff and branch management also review each invoice in detail to ensure accuracy and validity according to the contract provisions. Ministry procedures are comprehensive and rely on the integrity, skill and judgement of our staff as well as detailed written procedures and standard forms.

- . In cases of additional work, the Supplementary General Conditions of the Construction Management Contract allow for a mark-up of not more than 10% over cost to allow for a sub-contractor's overhead, plus a further mark-up of not more than 5% on the total to allow for the sub-contractor's profit. Based on the reasonable assumption that the construction management firms are entitled to similar mark-ups, the above mark-ups were applied to additional work carried out by the construction management firms as follows:*
 - 1. For Pine Ridge/Aurora, mark-ups of 10% for overhead plus 5% for profit were applied to the labour element only (i.e., costs of materials and rentals were reimbursed at cost without mark-up).*
 - 2. For North Bay MCS, a mark-up of 10% for overhead and profit was allowed on force account labour and materials only (i.e., no mark-up was allowed on items of labour and materials which could be considered 'overhead').*

"In both cases above, mark-ups on additional work by the construction management firm were significantly less than those permitted by contract for sub-contractors."

Health

Nursing Home Services

3.9 Improvements Required in Monitoring Nursing Home Services, Ministry of Health

The Ministry's Nursing Home Services Activity provides funding to nursing homes for extended care services to residents. The Activity is also responsible for the inspection and licensing of nursing homes to ensure that residents receive care in accordance with their needs. For the 1990 fiscal year, expenditure for this Activity totalled \$428.8 million, of which 99 per cent was paid to nursing homes.

SUMMARY

SCOPE AND OBJECTIVES

Our audit was conducted at the Nursing Homes Branch and at its three regional offices in Toronto, Ottawa and London. We interviewed key personnel at the Branch and regional offices and accompanied Branch personnel on their visits to five nursing homes to gain an understanding of their roles and the operations of homes.

We assessed the Ministry's monitoring of the quality of care in nursing homes.

CONCLUSIONS AND FINDINGS

MONITORING QUALITY OF CARE

We concluded that the procedures used by the Branch to monitor the quality of care in nursing homes required significant improvement.

- . The number and nature of cases selected for in-depth quality of care reviews were inadequate.
- . Long advance notice of Licence Renewal reviews could allow a substandard home to temporarily comply with requirements.
- . Licences were renewed without consulting the Fire Marshal's Office about the results of its fire inspections.
- . Over 40 per cent of homes did not receive any visits in addition to the annual Licence Renewal review. Additional visits are important to ensure care standards are met throughout the year.
- . Homes were not being referred to the Enforcement Section for further monitoring and investigation.
- . A number of factors have contributed to a significant decline in prosecutions during 1988 and 1989.
- . Many complaint investigations were not completed on a timely basis.

OTHER MATTER

No legislation regulates the standards of care for rest and retirement homes.

Comments on Ministry and Crown Agency Audits

BACKGROUND

The establishment and operating standards of nursing homes are set by the Nursing Homes Act and Regulation. In September 1989 there were 336 licensed nursing homes with approximately 30,000 beds. About 90 per cent of the homes were privately owned, profit-oriented businesses and the remainder were operated by non-profit agencies. For a number of years, most of the nursing home beds have been occupied.

Residents vary in the amount and types of care they require as well as in their lengths of stay. Persons in need of care may suffer from a large array of physical and mental disabilities. According to information from the Ministry, about 45 per cent of residents in homes are over 85 years old and the majority of the remainder are between 65 and 85.

Residents in nursing homes receive extended care services under the Health Insurance Act. Services provided by nursing homes to residents include nursing and personal care, meals, medical and personal supplies and social and physical activities. Individuals qualify for residency in nursing homes if they require at least 1 1/2 hours of nursing and personal care a day.

The standard daily ward rate of \$56.68 was established by regulation and is shared by the resident and the Ministry. For the period November 1989 to January 1990 the resident's share was \$23.30.

COMMENTARY

MONITORING QUALITY OF CARE

Overview

Prior to 1988, the Branch carried out its mandate by inspecting and licensing nursing homes to ensure they operated in compliance with legislation and provided care in accordance with residents' needs. Qualified inspectors from four disciplines (environmental health, fire safety, nursing and nutritional care) carried out inspections for the annual licence renewal.

As a result of a consulting study on the role and effectiveness of the Branch, a Compliance Management Program to monitor nursing home performance was implemented in early 1988. The major changes to implement this Program were:

- . The role of inspecting nursing homes changed in emphasis from enforcement to consultation, with the ultimate objective of assisting homes to achieve compliance with legislated requirements and Ministry policies; and
- . The compliance and enforcement functions of its inspection process were separated by creating two sections within the Branch.

In addition, the Branch established policies and procedures to be used by staff in implementing the Program. These procedures were still in the process of being refined and finalized at the time of our audit.

Licence Renewal Process

The Nursing Homes Act requires homes to be licensed. Licences are issued by the Ministry for a one-year period and are usually renewed after Licence Renewal

Health

Nursing Home Services

reviews are carried out. However, according to the Nursing Homes Act, where the licensee has applied for renewal and has paid the prescribed fee of \$10 before the expiry of the licence, the licence is deemed to continue until renewal is granted.

The Nursing Homes Act and the Health Facilities Special Orders Act provide that the Ministry may revoke or refuse to renew a licence. There have been no licence revocations since 1987.

The Compliance Section of the Branch has three regional offices (Toronto, London, and Ottawa). These offices are staffed by three Regional Managers and 29 Compliance Advisors. The Advisors are registered nurses and are responsible for carrying out annual Licence Renewal reviews to judge the overall performance of nursing homes. These reviews are usually done prior to the licence expiry date.

The objective in carrying out these reviews is to identify deficiencies in care and services and provide feedback to nursing home management. Advisors are expected to assist nursing home management in preparing acceptable plans of corrective action. Advisors do not apply sanctions for non-compliance with the Nursing Homes Act and Regulation. This is the responsibility of the Enforcement Section.

The role of Compliance Advisors during Licence Renewal reviews extends to all areas of homes. However, where advisors find a need for Environmental and Dietary Advisors to visit a home, such specialists are obtained from the Enforcement Section.

Annual fire safety inspections of nursing homes are carried out by the Office of the Fire Marshal.

Inadequate Assurance about Outcomes of Care

An important feature of the Compliance Management Program is that Licence Renewal reviews are to focus on the outcomes of care, that is, the changes in the health of a resident that are associated with the care provided. The procedures followed by the Advisors recognize this necessity.

Outcomes of care are assessed primarily through an in-depth quality of care review of a sample of residents at risk. This review focuses on assessing the residents' needs and comparing the care expected with the care actually provided. The process includes observations of the residents, interviews with the residents and staff responsible for their care, as well as reviews of the residents' medical records.

According to Branch policy the sample of residents for the in-depth review is to be selected from residents recommended by the home and by Advisors during their walk-through of the homes.

To assist homes and Advisors in identifying these residents, the Branch issued guidelines with respect to minimum size and composition of selected samples. However, we understand that the minimum sample sizes have no statistically supportable basis.

Comments on Ministry and Crown Agency Audits

Although Advisors generally followed the established procedures for reviews, in most files we examined **the sample sizes of residents selected were only about half of the required minimum.** For example, during a review in March 1989 only six of 326 residents in a home were selected for the in-depth quality of care review.

The suggested composition of the samples was heavily weighted towards high risk residents, such as those with critical diseases or with functional impairments. In order to conclude about the outcomes of care of all residents in a home, residents should be grouped by their care needs and an appropriate sample taken by the Compliance Advisor from each group.

Because of the small sample sizes and the manner in which samples were taken, results could not be generalized with any pre-established accuracy about the outcomes of care for all residents of a home. Inadequate assurance, therefore, was being obtained about the outcomes of care in homes.

We recommended that appropriate procedures be established and monitored by the Branch.

Long Advance Notice Inappropriate

Significant variations existed among Advisors with respect to the advance notice they were giving homes of their annual Licence Reviews. **The amount of advance notice varied from one or two days to one or two months. Long advance notice allows a substandard home the opportunity to bring itself into temporary compliance.**

At the conclusion of our audit, however, the Branch had established a policy which required that homes be given a maximum of one week's notice of the planned review date. Further, where an Advisor determines that advance notice would distort findings at the home, reviews can be carried out without advance warning.

Licences Issued without Consulting Fire Marshal's Office

In September 1988, the responsibility for fire safety inspections in nursing homes was transferred from the Branch to the Office of the Fire Marshal. **The Branch was then required to ask the Fire Marshal's Office if it had any concerns about homes coming up for licence renewal which might affect the Director's decision to renew the licences. However, this was not being done.**

The Fire Marshal's Office informed us that reports of fire inspections of homes had been sent to the Branch. Our review of 14 Licence Renewal files revealed six fire inspection reports from the Fire Marshal's Office. While the remaining eight reports were not on file in the Ministry, we were informed by the Fire Marshal's Office that the inspections had been done.

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Of the six inspection reports on file, three were carried out before licences were issued. However, the files did not indicate whether the contraventions of the Fire Code noted in the reports were rectified before the licences were issued. For example, an inspection report dated March 23, 1989 noted seven violations (e.g. the chimney, flue and flue pipe were not inspected annually and the fire safety plan was not approved by the Fire Chief). The violations were to be corrected by April 24, 1989 or the home would be prosecuted. Nevertheless, the home's licence was renewed on March 30, 1989.

Most Homes Received No Additional Visits

In addition to annual Licence Reviews, visits throughout the year, with minimum advance notice, are important to ensure care standards continue to be met and to run an effective Compliance Management Program.

However, for the period January to November 1989, over 40 per cent of the homes did not receive any additional visits from Compliance Advisors.

The consensus of 14 Advisors interviewed indicated that a minimum of two or three visits during the year was required for all homes. They felt that even more visits were necessary for problem homes.

We also noted from Ministry records that no home was referred by Compliance Advisors for visits by Environmental Health Officers and only two homes were referred for visits by Dietary Officers.

We recommended that the Branch establish guidelines and procedures for the minimum number of additional visits to be made to homes each year by Advisors.

Stronger Enforcement Needed

The Enforcement Section is located in Toronto and its staffing includes nine Enforcement Officers from the disciplines of nursing, nutritional care, and environmental health and safety. The functions of Enforcement Officers include:

- . investigating all complaints and incidents of abuse;
- . carrying out special investigations as assigned by the Director;
- . taking over the monitoring of nursing homes from the Compliance Section where consultation, education and collaboration are not effective; and
- . applying sanctions for non-compliance with the Nursing Homes Act and Regulation.

According to Branch policy, the presence of any of the following situations will cause a review to determine whether a transfer to the Enforcement Section is required.

- . Widespread or recurrent failure to meet pre-established standards and criteria.
- . Negligence or failure to take all reasonable steps to avoid a particular event, condition or occurrence.

Comments on Ministry and Crown Agency Audits

- Lack of positive response, co-operation or collaboration on the part of the home to achieve standards and criteria.

At the time of our audit in December 1989, there were only two homes under review by the Enforcement Section. Both had difficulty meeting financial obligations with their suppliers and employees. Management of the Branch felt that these financial difficulties might affect the residents' care and safety and a decision had been taken to transfer the two homes to Enforcement.

We discussed the transfer of homes to Enforcement with the Manager of Enforcement, and the Compliance Advisors at each of the three Regional Offices visited. **From a review of the files of homes indicated by these staff, an additional nine homes were identified which should have been in the Enforcement Section.** For example, several reviews of a home between February 1988 and February 1989 by Advisors noted over 90 findings, including 30 repeat findings. These included inadequate nursing care to meet residents' needs, some residents not receiving care as directed by a physician, and some residents not receiving care to prevent skin disorders.

There is also a potential conflict between the consulting and regulatory roles of a Compliance Advisor. In a consulting role, there is an incentive for Advisors to keep working with homes as long as possible before referring them to Enforcement. Advisors may be too understanding and lenient towards substandard homes. Consequently, homes may not be referred to Enforcement when they should be.

Failing to make appropriate referrals to Enforcement means that homes which may be providing substandard care are not being dealt with effectively. Accordingly, we felt that there was a need for the Branch to periodically perform independent reviews of the activities of Advisors. These reviews would also ensure that the various Branch policies and procedures were being followed.

Significant Decline in Prosecutions

Under the Nursing Homes Act, an operator of a home who contravenes any provision of the Act or Regulation can be prosecuted and, upon conviction, is liable to a fine. Prosecutions and convictions for the period 1984 to 1989 are illustrated in the following table:

| <u>Year</u> | <u>Homes Charged</u> | <u>Charges Laid</u> | <u>Convictions</u> |
|-------------|----------------------|---------------------|--------------------|
| 1984 | 20 | 497 | 117 |
| 1985 | 8 | 41 | 6 |
| 1986 | 24 | 111 | 12 |
| 1987 | 9 | 19 | 6 |
| 1988 | 3 | 12 | 6 |
| 1989 | 0 | 0 | 0 |

Health

Nursing Home Services

Some of the charges laid included:

- not maintaining a clean, sanitary home in a good state of repair;
- not storing food at a proper temperature and humidity to prevent contamination or spoilage; and
- not providing proper and sufficient care to safeguard the residents' health and to maintain personal hygiene.

The significant decline in prosecutions during 1988 and the absence of prosecutions in 1989 can, in part, be explained by the new Compliance Management approach. This approach focuses on the resolution of deficiencies by consultation rather than on prosecution. Additionally, as indicated previously, homes have not been properly transferred into the Enforcement Section. Moreover, the results of judicial decisions have shown that violations of many provisions of the current Regulation cannot be successfully prosecuted. Prosecutions have also been hampered by a limitation period under the Provincial Offences Act which comes into effect six months after the actual occurrence of an offence rather than after the point of its discovery.

There is a recognized need for substantial revisions to the Nursing Homes Act and Regulation to make current provisions enforceable. The Branch believed it might not be desirable or practical to revise all areas of the Regulation (e.g. nursing issues), without receiving specific policy direction. However, it had not pursued revisions to the Regulation in dietary and environmental areas where it was advised that they were possible.

Complaint Investigations Not Completed on a Timely Basis

The Nursing Homes Branch receives and investigates complaints relating to the operations of nursing homes and the care of residents. Where a complaint gives the Branch reasonable and probable grounds to believe that the health, safety or welfare of a resident may be at risk, the Nursing Homes Act requires that it be investigated immediately. The Branch had established a policy which, in general, required an investigation to be completed within 20 working days of receiving such a complaint. For the period November 1988 to November 1989, 322 complaints were received by the Enforcement Section of the Branch.

To assess compliance with the requirements, we reviewed 270 completed investigations. Seventy of the investigations exceeded the Branch's policy of 20 working days to complete. Of these, 16 took over 70 days to complete. Four of these complaints were serious in nature and dealt with allegations of abuse or negligent care. However, the investigation of these serious complaints had not begun until 23 to 55 days after they were received.

An official of the Enforcement Section acknowledged that a number of complaints had not been investigated within the acceptable time limits and that action had been taken to rectify the situation.

Comments on Ministry and Crown Agency Audits

OTHER MATTER

Rest and Retirement Homes

Rest and retirement homes are privately owned facilities which provide residential care, including supervision and assistance with activities of daily living.

In 1987 the Office for Senior Citizens' Affairs surveyed rest and retirement homes to determine the size and features of the homes, a profile of residents, and the care and services provided. The survey identified over 23,600 beds in 535 homes. An official of the Office informed us that, since the survey, it has informally identified a further 6,000 beds.

Unlike nursing homes, there is no legislation establishing the standards of care for rest and retirement homes. In 1989, the Advisory Committee on Rest and Retirement Homes recognized in its report to the Minister for Senior Citizens' Affairs the need for legislation to regulate care in these homes.

RESPONSE

The following response was received from the Deputy Minister on September 11, 1990.

MONITORING QUALITY OF CARE

Inadequate Assurance about Outcomes of Care

"The Ministry acknowledges that the actual number sampled was, in some cases, less than the sample suggested in the draft guideline developed in the initial stages of our compliance management program implementation. The Ministry is reviewing the appropriateness of the sample size guidelines in question, and ensuring that advisors are aware of this requirement.

"However, other files selected on the basis of high risk diagnoses were also reviewed, and more importantly, this file review process is only one of a number of indicators through which a Compliance Advisor can ensure that quality care is being provided."

Long Advance Notice Inappropriate

"The Audit Report acknowledged the Ministry's efforts to ensure that Homes receive notice of visits a maximum of one week in advance. Furthermore as the Audit Report noted, visits of this type can and do happen with no notice in unusual cases."

Licences Issued without Consulting Fire Marshal's Office

"The Fire Marshal has the clear primary responsibility for ensuring compliance with fire safety standards. The Ministry is now ensuring that fire safety officials have discharged their responsibilities prior to the issuance of a licence."

Health Nursing Home Services

Most Homes Received No Additional Visits

"... due to the timing of the implementation of compliance management, a large percentage of the Homes sampled did not receive a follow up visit within one year of licensing. Since the Audit was completed, with the fuller implementation of the program, this issue is being successfully addressed. A minimum of two follow up visits is expected."

Stronger Enforcement Needed

"The objective of Compliance Management is to work collaboratively with homes to ensure that they meet statutory requirements and provide a safe environment for residents. As owners are made more clearly aware of Ministry expectations, it is natural for a greater number to comply and hence not require enforcement. In cases where a home is failing to meet Ministry expectations, they are placed in enforcement. It should be noted however, that the Ministry's objective is then to obtain improvement in the home's performance, ensuring safety and quality of care for the residents. With this accomplished it is intended that the home move back into the compliance mode of review."

"The decision to move a home from compliance to enforcement is made by the Director, on the advice of the Managers of Compliance and Enforcement. Compliance Advisors' opinions are considered by Regional Managers, and these managers are responsible for recommending this action to the officials noted above. The decision to move a home to the enforcement mode has been, and will continue to be made, in the best interests of the residents."

"As a matter of course, Regional Offices are requested to identify those homes who might be considered for enforcement. The nine homes mentioned in the Audit Report were suggested through this process for evaluation. Of these nine, three were deemed to require enforcement. Two remain in enforcement and are being closely monitored. Furthermore, two additional homes moved from compliance to enforcement, and back to compliance, since the start of 1990. Three more are expected to go into enforcement by September 30, 1990."

Significant Decline in Prosecutions

"Prosecution is but one of a number of measures that can be used to safeguard the public interest in the Nursing Home Program. The Ministry acknowledges the declining rate of prosecutions, but notes that 5 convictions were obtained in 1989 and 7 charges have been laid to date in 1990."

"The Audit Report acknowledged the serious difficulties in securing meaningful sanctions through the courts. Furthermore, reducing prosecutions is an expected benefit of the compliance management approach."

"In defining the accountability relationship between Government and Homes for the Aged/Nursing Homes in the reformed Long Term Care system, care will be taken to minimize the requirement for court imposed sanctions due to their inherent limitations."

Comments on Ministry and Crown Agency Audits

Complaint Investigations Not Completed on a Timely Basis

"The Audit Report refers to the Branch's policy of 20 working days to complete investigations. This policy refers to the process of receiving a complaint, investigating, and reporting orally to the Enforcement Manager. Generally it is not expected that the required paperwork would be completed within the 20 day period.

"A complaint tracking system has been implemented and two nursing positions in the Enforcement Unit have been filled. The Ministry is examining the possibility of using local Compliance Advisors as the first line of response to complaints. Since the Audit terminated significant improvement has occurred and the new measures noted here should ensure further improvement."

OTHER MATTERS

Rest and Retirement Homes

"Historically, municipalities have monitored rest homes with a particular focus on fire and public health standards.

"This matter has been the subject of ongoing discussions with municipalities and a number of provincial ministries."

3.10 Concerns with Access to Extended Care Beds, Ministries of Health and Community and Social Services

In conjunction with our audits of the Ministry of Health's Nursing Home Services Activity (see Section 3.9) and the Ministry of Community and Social Services' Homes for the Aged Program (see Section 3.4), we reviewed the access to and supply of extended care beds at nursing homes and homes for the aged.

SUMMARY

OBSERVATIONS

There were significant delays in the placement of individuals in extended care beds. Additionally, the Provincial guideline for assessing the adequacy of the total supply of extended care beds had not been revised since its inception in 1972.

In May 1990 the Government released a paper outlining the strategic directions for reforming long-term care and support services.

COMMENTARY

Extended Care Bed Utilization and Waiting Lists

Complete information on extended care bed utilization and waiting lists for beds was not available from the Ministry of Health systems reports for the 1990 fiscal year. Therefore, in order to obtain further information we contacted various organizations which are involved in placing the elderly in long-term care facilities.

Health/Community and Social Services

Access to Extended Care Beds

Our analysis of the information obtained indicated significant delays in placement in extended care beds in both nursing homes and homes for the aged. It also indicated long waiting lists for extended care beds in nursing homes. For example:

- **The overall average wait for an extended care bed was 100 days.** The average wait was 78 days for someone in a hospital and 130 days for someone waiting in the community. Moreover, there were significant geographic variations. The residents of one county had an overall average wait of only 33 days while those in another county had to wait an average of 191 days. Individuals with heavier care requirements generally waited longer than other individuals.
- **At least 4,000 individuals occupied acute care beds in hospitals during the 1990 fiscal year while waiting for extended care beds. These individuals waited, in total, at least 220,000 days for extended care beds.** The full impact of these delays is difficult to establish. However, if these individuals had been occupying extended care beds, instead of acute care hospital beds, we estimated that the individuals would have contributed at least \$5 million in co-payments for their room and board.
- **Approximately 3,600 individuals were waiting for extended care beds in nursing homes. The waiting list amounted to over 20 per cent of the 15,500 beds surveyed.** The survey did not provide sufficient information on waiting lists for extended care beds in homes for the aged.

Supply of Extended Care Beds

Planning for the supply of extended care beds in specific areas of the Province was carried out by District Health Councils. Additionally, **a Provincial bed supply guideline had been established in 1972 for assessing the adequacy of the total supply of extended care beds. The guideline is 3.5 extended care beds for each 1,000 persons in the population.** Apparently the guideline had been based on an estimate of the number of extended care beds available in 1972, divided by the total Provincial population at that time. There was no indication that the waiting time to access a bed had been considered. **Even assuming that the guideline was valid when it was established, it had not been revised to take into account the increased percentage of elderly in the population.**

The guideline was used in the Ministry of Health's publication, "Provincial Bed Situation 1989 - 1994," to determine the total extended care beds required for the Province. The publication showed that the total number of beds required in 1989 was 33,580, compared to 42,620 beds available. **However, the apparent surplus of approximately 9,000 beds was inconsistent with the fact that virtually all the beds were occupied.**

Comments on Ministry and Crown Agency Audits

Long-term Care Reform

Effective April 30, 1990, the nursing homes program of the Ministry of Health and the homes for the aged program of the Ministry of Community and Social Services became the responsibility of the Residential Services Branch of the new Community Health and Support Services Division. This change brought the two programs responsible for long-term residential and extended care beds under a single management structure with reporting responsibilities to the Deputy Ministers of both ministries.

On May 30, 1990, the Government released a paper entitled "Strategies for Change, Comprehensive Reform of Ontario's Long-Term Care Services." The purposes of this paper are to outline the strategic directions for reforming long-term care and support services and to provide a framework for community discussion. A number of elements of the reform relate to nursing homes and homes for the aged. These elements include:

- . access to long-term care in homes through service access organizations to be established across the province;
- . funding that will recognize the varying levels of care needed by residents of homes; and
- . establishing consistent accountability and program standards for both types of homes.

The paper recognizes the problem of inappropriate uses of acute care hospital beds for individuals requiring long-term care or support services. Elements of the reform strategy directly address the issue of individuals requiring heavy extended care.

RESPONSE

A joint response was received from the Deputy Ministers of Health and Community and Social Services on September 14, 1990.

"Your report comments on the demand for extended care services in the Province, as well as the adequacy of the Ministry of Health's Extended Care Bed to Population ratio. Your report is very timely, given our current efforts to restructure our approach to long-term care, so as to prepare us for the challenges of an aging society. The Province has embarked on a comprehensive reform to develop a coordinated and integrated system of services that will meet the needs of the Province's elderly and physically disabled citizens.

"Your report acknowledges the directions contained in 'Strategies for Change: Comprehensive Reform of Ontario's Long-Term Care Services'. You also acknowledge that one of our key reform strategies is aimed at resolving access problems and inappropriate placement for persons with heavy care needs.

"We would like to take this opportunity to briefly highlight our overall thinking with respect to the concerns you have identified in your report. Our objective in the reform for long-term care facilities is to ensure the existing bed supply is used as effectively as possible, by strengthening the capacity of facilities to serve residents who require heavy and more complex care.

Health

Home Care Assistance

"In order to meet our objective of effective bed utilization, the reform will support the development of a system of community based service alternatives, thereby limiting the need for overall growth in the facility sector. In cases where clients cannot adequately be maintained in the community, access to facilities will be coordinated and managed through a new case management and service coordination program called the Service Access Organization. This agency will direct people requiring heavy care to appropriate long-term care facilities and reduce the number of persons inappropriately placed in acute care settings. The reform will further reduce pressure on chronic care beds by equipping Nursing Homes and Homes for the Aged to serve heavy care residents.

"This will be achieved through the development of a new funding policy, and updated standards of care. Our new funding formula will match resources with client needs, and will eliminate the categories of Residential Care and Extended Care. Policies which limit the scope of services currently allowed in Nursing Homes and Homes for the Aged will be updated to match current health care practice.

"A consistent accountability framework is being developed for both Nursing Homes and Homes for the Aged to ensure these new service standards are achieved. A study to determine the future role of Chronic Care Hospitals in the reformed system, and in light of substantial improvements to service in Homes for the Aged and Nursing Homes, will be undertaken in the very near future.

"Currently under development is a comprehensive and integrated information system that will not only track bed utilization and waiting lists, but will also gather valuable planning data on the characteristics of clients in both facility-based and community-based programs. A local integrated planning capacity will allow for a more sensitive and refined approach to gauging the requirement for new long-term care services, be they facility or community based.

"We trust this provides you with an overview of our reform strategies which are designed to enable our facilities to function more effectively and to provide solutions to problem areas which have been identified in the current system."

3.11 Opportunities to Improve Economy, Home Care Assistance, Ministry of Health

The Ministry spent \$305 million in the 1990 fiscal year on the Home Care Assistance Program. Each day, assistance was being provided to an average of 45,000 patients in their homes.

SUMMARY

SCOPE AND OBJECTIVE

We assessed the economy of the Home Care Assistance Program.

We visited five local programs throughout Ontario and conducted personal interviews with Home Care providers and other health care professionals. We also reviewed research studies and used a questionnaire to solicit information from nurses.

Comments on Ministry and Crown Agency Audits

CONCLUSION AND FINDINGS

Generally, Home Care was being provided economically. However, there was scope for improved economy in delivering certain aspects of assistance.

- . Nursing services could realize significant savings by delegating a portion of the nurses' workload to nursing assistants. For example, a five per cent delegation would represent an annual saving of almost \$3 million.
- . In many instances, unnecessary nursing visits were made to satisfy eligibility for Home Care. Cost saving potential amounts to several million dollars annually.
- . Ontario spends approximately \$45 million annually on oxygen, mainly for Home Care patients, without any competitive purchasing requirements.

Home Care could play a more important role in the delivery of health care services throughout the Province.

- . It was estimated that 15 to 30 per cent of hospital patients could be cared for at home. At the time of our audit the Long-term Care Reform Committee of the Province was examining this issue.

We also noted that high turnover and insufficient training have contributed to complaints of unreliable homemaking services. Recently, some positive steps have been taken to improve the wages, training and working conditions of the homemakers.

BACKGROUND

The Ministry's Home Care Assistance Program delivers nursing and other support services such as homemaking to eligible acute and chronic patients in their homes. Home Care services are delivered across the Province mainly by Public Health Boards and the Victorian Order of Nurses, through 38 local programs.

To be eligible to receive Home Care services a person must satisfy nine conditions, including:

- . being under the medical supervision of an attending physician;
- . having a medical condition such that adequate treatment can be provided at home with the services available through the Home Care Program; and
- . needing at least one of the professional services, i.e. nursing, physiotherapy, occupational therapy or speech therapy, a minimum of three times a month.

Auxiliary services which may be provided while on the program include homemaking, transportation, dressings, laboratory tests and Meals-on-Wheels.

Health

Home Care Assistance

Patients can be referred to the local program by anyone. A case manager, usually a nurse, is assigned to assess the individual's eligibility to receive Home Care services. The case manager, in consultation with the patient's physician and other professionals, the patient and his or her family, authorizes the services required.

Expenditures for Home Care have almost tripled from \$105 million in the 1985 fiscal year to \$305 million in the 1990 fiscal year.

COMMENTARY

Potential for Savings from Delegation of Nursing Functions

Local Home Care Programs contract nursing services mainly from the Victorian Order of Nurses (VON) and the St. Elizabeth Visiting Nurses Association (SEVNA).

For the 1989 fiscal year, there were approximately 3.5 million nursing visits to patients at a cost of \$96 million. This represented approximately one-third of the program's total costs.

Most nursing services are provided by registered nurses (RNs), although the Health Insurance Act permits the use of registered nursing assistants (RNAs).

To ascertain whether some of the functions performed by RNs could be performed by other trained care givers, we reviewed the Standards of Nursing Practice for Registered Nurses and Registered Nursing Assistants from the College of Nurses of Ontario, the Home Support training material for homemakers from the Canadian Red Cross (Ontario), and the course guidelines for the Health Care Aide program from the Ministry of Colleges and Universities. These indicated that a number of functions could be delegated to an RNA, health care aide or trained homemaker. Examples included:

- assisting persons from bed to a chair/stretchers, or with crutches, walking, walkers, or cane;
- measuring temperature, respiration, height and weight;
- assisting with passive and active exercises; and
- assisting with personal hygiene such as washing hair, oral care, bathing, shaving and skin care.

Also, 85 per cent of nurses who responded to our survey of VON nurses indicated that a portion of their work could be delegated to an RNA or health care aide. **On average, they estimated that 25 per cent of their duties could be delegated.** For chronic care patients, where more personal care might be required, it would be feasible to use more RNAs and para-professionals. In acute care cases, greater use of RNs would be more likely.

Comments on Ministry and Crown Agency Audits

The extent to which delegation of duties would translate into delegation of visits is a matter for further study. **However, even a five per cent delegation of RN visits to RNAs would represent an annual saving of almost \$3 million.** This calculation is based on hourly rate differences between an RN and an RNA. Additional savings would result if delegation could be made to health care aides and homemakers who are remunerated at lower rates.

We were informed that in other provinces, for example Manitoba and Alberta, health care aides work under the general direction of a nurse where significant personal care is involved. According to information obtained from VON (Canada), approximately 30,000 visits were made by health care aides to Home Care patients in the 1989 fiscal year.

We recommended that the Ministry explore the potential for cost savings in Ontario through delegation of more nursing tasks.

Unnecessary Nursing Visits

To be eligible to receive and continue to receive Home Care services, a patient must require at least one of the professional services a minimum of three times a month. In our survey of VON nurses, two-thirds of those who responded replied that they had Home Care patients who did not need, but were receiving, three visits a month in order to qualify for auxiliary services such as homemaking. **On average, respondents estimated that almost ten per cent of patients fit into this category.**

Under the existing requirements these patients are not eligible to receive any Home Care services. However, while these patients do not need three nursing visits per month, there is evidently a belief that they do need Home Care services and that, accordingly, eligibility requirements should permit some flexibility.

We recommended that the Ministry examine the cost saving potential of allowing discretion in the application of the minimum visit requirement. **For example, a reduction of one visit per month would result in savings of approximately \$5 million, based on the nursing visit rate at the time of our audit.**

We acknowledged that discretion would have to be exercised cautiously to ensure that only those patients who genuinely needed Home Care Services were admitted to the Program.

Excessive Prices Paid for Oxygen

The local Home Care Programs order oxygen for patients who require oxygen therapy. Vendors install the necessary equipment and invoice the Ministry's Ontario Drug Benefit Program or Assistive Devices Program. The local programs did not have procedures in place (such as tendering) to ensure that prices obtained were the most economical.

Health

Home Care Assistance

Based on our review of a large sample of vendors who have invoiced the Ministry for oxygen supplies, prices ranged from \$8 to \$36 for cylinders of the same size. The following table illustrates the price variations:

| <u>Location</u> | <u>Price for Size B Cylinder</u> | <u>Price for Size E Cylinder</u> |
|-----------------|--------------------------------------|--------------------------------------|
| Markham | \$ 8.00 | \$10.00 |
| Kitchener | 17.30 | 21.55 |
| Cornwall | 19.25 | 29.35 |
| Goderich | 34.00 | 30.00 |
| Owen Sound | 36.00 | 31.50 |

We also noted large variations in prices within the same city. According to Ministry records, prices paid to vendors in one city for the same sized cylinder during the 1989 fiscal year were:

| <u>Vendor</u> | <u>Unit Price</u> | <u>Amount Paid to Vendor in Fiscal Year</u> |
|---------------|-------------------|---|
| A | \$45.00 | \$ 723,400 |
| B | 33.00 | 1,531,600 |
| C | 53.00 | 1,456,300 |

Ontario spends approximately \$45 million annually on oxygen, mainly for all patients not in institutions. There is scope for significant savings through proper tendering procedures.

The Ministry has recognized the need for rationalization of the prices paid for oxygen provided in peoples' homes and was planning measures to control costs and to ensure appropriate use of oxygen. We were also informed that the Ministry was expected, over time, to shift this responsibility to the Province's long-term care system now under development.

Potential for Significant Savings from Reduced Stay in Institutions

We interviewed 22 doctors and 9 officials from the Ontario Medical Association and local Home Care Assistance Programs in Toronto, Ottawa, Kingston and London.

Those interviewed agreed that between 15 and 30 per cent of patients occupying hospital beds could be treated at home, if some basic services were made available. Examples of services being carried out in institutions that could be carried out at home included homemaking and attendant care and help with the use of equipment such as pain pumps, dialysis equipment, and oxygen therapy.

Most of the hospital patients who could be treated at home were not under Home Care because they did not require the minimum three professional visits a month or periodically required more intensive care than the program allowed.

Comments on Ministry and Crown Agency Audits

Treatment at home is generally considered beneficial both for the patient and the health care system. The patient is usually happier, treatment at home could be less expensive, and it could help alleviate the bed shortage at various institutions.

In quantifying the potential for reduced institutionalization, we also reviewed research studies carried out by the health community.

- Doctors surveyed by York University researchers on this topic estimated that 15 per cent of the time patients spent in hospital was unnecessary.
- Various American and Canadian medical research papers outlined the success of medical services at home. According to one study, intravenous antibiotic therapy at home for 1,800 patients saved 35,000 hospital days or \$9 million. In another study, a home-based pulmonary function was found to have saved at least 50 per cent of the cost of hospitalization.

Studies have shown that many patients suffering from diseases such as cancer and kidney or lung disorders could be treated at home cost-effectively. The studies have estimated the cost savings at 40 to 70 per cent of the hospital cost. There are approximately 50,000 hospital beds in Ontario. The average per diem hospital cost is \$350. Assuming a cost saving of 50 per cent, there is a potential saving of \$30 million annually for every one per cent of hospital beds that are vacated when the patient is treated at home.

To realize these savings, amendments to the existing legislation and policies would be required. The savings might not be realized in absolute dollars as the unused beds would probably be occupied by other patients waiting to receive treatment. But the beds would be made available for more needy patients.

To optimize the use of health care resources, the Long-term Care Reform Committee of the Province has been reviewing the role of the Home Care Assistance Program in the overall delivery of health care services and the Province plans to amend the existing policies and legislation.

Improvements Under Way in Homemaking Services

After nursing, homemaking is the largest cost component in the Home Care Assistance Program. It includes light housekeeping, personal care, meal preparation and grocery shopping.

During the 1989 fiscal year, the Home Care Program purchased over 6 million homemaking hours for a total cost of \$58 million. This represented almost 30 per cent of patient care costs. Homemaking services are provided by both commercial and not-for-profit agencies. The largest agency is the Canadian Red Cross, which provided over 40 per cent of the total homemaking hours.

The Ministry of Health administers the purchase of homemaking services. However, it is the Ministry of Community and Social Services that develops and implements all important policies pertaining to homemaking.

Health

Home Care Assistance

To evaluate the quality of homemaking services we interviewed Program officials and an advocacy group, and reviewed the complaint files. Of the five local programs in our review, only one had extensively documented complaints received about services provided or equipment used. In the other four, the majority of complaints had been resolved verbally and therefore were not documented. Most complaints were related to the unreliability of the homemaking services. For instance, we found concerns with:

- homemakers not showing up or being late. In some instances, the homemaker was absent for a week or more.
- homemakers not delivering the services requested by the Home Care Program.
- homemakers leaving the job. For example, one patient had 25 homemakers over a 12-month period.

Given the scarcity of hard data, we attempted to determine whether there were inherent problems that would result in poor service.

Lack of Training and Turnover of Homemakers

In the 1988 fiscal year, an Interministerial Group, comprising the Ministries of Community and Social Services, Health, Skills Development, and Colleges and Universities, and the Office of Senior Citizens Affairs, conducted a study of homemakers.

The study revealed that homemakers were poorly trained and paid. On average, they had earned \$5.25 an hour in the 1987 fiscal year, with few agencies paying for travel time. **Consequently, the turnover rates were high, exceeding 50 per cent in many agencies.** The Group concluded that the homemaking wage rate was the single most important factor in determining the ongoing viability of the visiting homemaking system. Also, the Group recommended that only homemakers who had a minimum acceptable level of training (Level II Home Support Program offered by the Red Cross and community colleges) should be eligible to provide publicly funded in-home services.

In 1989, the Ministry of Community and Social Services surveyed 169 commercial and not-for-profit organizations which provided homemaking services to local Home Care Programs. The survey found that less than half of the homemakers had the minimum level of training recommended by the Group.

The survey also showed that not-for-profit organizations spent more on wages, training and travel reimbursements. They also experienced lower turnover. We were advised that many commercial agencies were providing in-home training and would therefore not incur a direct cost.

Comments on Ministry and Crown Agency Audits

| | <u>Commercial</u> | <u>Not-for-Profit</u> |
|---------------------------------|-------------------|-----------------------|
| Number of homemakers | 6,700 | 6,900 |
| Hourly wages paid to homemakers | \$5.72 | \$6.14 |
| Travel-related costs | \$.7 million | \$4.2 million |
| Training-related costs | \$.3 million | \$1.3 million |
| Turnover rates | 100% | 50% |

In November 1989, the Ministry of Community and Social Services announced an increase of \$29 million in the funding for homemakers. The increased funding will ensure that homemakers working on publicly funded programs will be paid a minimum of \$7.25 per hour. As well, agencies are to be required to pay homemakers for travel time between patients in addition to the compensation for travel costs. The increased funding also includes \$2.2 million to provide for training.

Homemaking is an important part of the Program and gives patients the support needed to remain at home. In future, its importance is likely to grow. The strategy developed by the Long-term Care Reform Committee of the Province emphasized more in-home services. A substantial increased demand is also expected due to the Province's aging population.

RESPONSE

The Deputy Minister included the following responses in his reply dated September 7, 1990.

Potential for Savings from Delegation of Nursing Functions

"The Ministry agrees that further delegation of nursing tasks should be explored. Since homemakers are the community equivalent of nursing aides, a number of initiatives have taken place to enhance the supply, quality, and funding for this group of workers.

"In addition, the Ministry continues to encourage the independent nursing agencies to use Registered Nursing Assistants, where possible, and the nursing agencies are making renewed efforts in this area.

"The report on the Comprehensive Reform of Ontario's Long-Term Care Services entitled 'Strategies for Change' notes that 'the role of the registered nurse may change, with greater emphasis on assessment, planning, supervision, and provision of specialized care. At the same time, there is a need to re-evaluate in-home nursing services to determine the ways in which registered nursing assistants and trained attendants could assume a greater role.'"

Unnecessary Nursing Visits

"The Ministry agrees that the current minimum service limits, while serving to ensure that only appropriate cases are admitted to the program, could result in the provision of unnecessary services.

Health

Home Care Assistance

"In designing the new system of services under the Long-Term Care Reform the issue of appropriate service limits is being addressed within the context of the expanded mandate for the program."

Excessive Prices Paid for Oxygen

"Responsibility for the oxygen program is currently under the Drug Program Branch and the Assistive Devices Branch. As part of the Long-Term Care Reform Strategy the services will be moved to the Community Health and Support Services Division in the future."

"A strategy to address cost, rationalization and standardization of practice is being undertaken."

"The Ontario Medical Association, along with the Ontario Thoracic Society, have developed physiological eligibility criteria to determine the appropriate use of oxygen. These criteria are being implemented to assess eligibility. As well, physicians have been encouraged to use the guidelines in prescribing oxygen for all clients who may require oxygen."

"A pricing survey of invoice costs has been undertaken to better assess the variations in pricing across the province. The results of the survey will serve as background for future negotiations with suppliers."

"An overall Vendor Agreement is being designed for discussion with the industry. The agreement will include the terms and conditions under which vendors will be eligible for reimbursement from the Ministry of Health. Issues relating to quality assurance, service, aftermarket service, product liability and protocols with home care programs, assessors, prescribers and hospitals will be included."

"Existing arrangements for the pricing of oxygen as well as related equipment and services will be reviewed and revised."

"Administrative changes in relation to the oxygen program are to be implemented prior to its transfer under Long-Term Care in 1991."

Potential for Significant Savings from Reduced Stay in Institutions

"This issue will be addressed in the process of policy development in relation to the reform of Long-Term Care Services."

Improvements Under Way in Homemaking Services

"The observations and recommendations made by the Provincial Auditor will be incorporated in the plans being developed for the restructuring of Long-Term Care Services."

Comments on Ministry and Crown Agency Audits

3.12

Use of Information Technology Consultants, Ministry of Health

The Ministry's Information and Systems Division develops, implements, and maintains health information systems to serve the Ministry's corporate and program managers, as well as health care providers, planners and researchers.

During the 1990 fiscal year, the Information and Systems Division awarded 187 consulting contracts totalling \$8.8 million.

SUMMARY

SCOPE AND OBJECTIVE

We examined 94 consulting contracts awarded since October 1988. Our sample selection was based on the ceiling price and time patterns of the contracts and the length of time the consultants had been with the Ministry.

We assessed adherence to Government policies and procedures in the acquisition of consulting services.

CONCLUSION AND FINDINGS

For the most part, the Division adhered to Government policies and procedures. However, its continued reliance on some consultants was uneconomical and in conflict with Management Board Directives.

BACKGROUND

Consulting services are acquired for a fee on the basis of a defined assignment relating to management, information technology, technical consulting or research and development.

The Ministry's Information Technology Operational Plan for the 1991 fiscal year projects an increase in the use of consultants as a result of numerous system changes. For example, the re-registration of every Ontario citizen with a unique health number requires an entirely new system to process health information. Because the increased development effort will be short-term and will require highly specialized technical resources, the Ministry will use consultants to provide these resources during the development of the systems.

Systems Development Branch currently uses four consultants for every ten employees. The Branch expects to increase this ratio to 16 to 10 over the next few years. By the 1995 fiscal year, most system changes will be implemented and this ratio is expected to decline to three consultants for every ten employees.

COMMENTARY

Adherence to Requirements

The purchase of consulting services must conform to the key principles set out in Management Board Directives:

- Consulting services shall be acquired through a competitive process whenever possible with the objective of obtaining the best value for the funds to be expended.

Health

Information Technology Consultants

- From among qualified bidders for assignments (i.e., those satisfying all mandatory requirements), the ministries must select the consultant with the lowest evaluated cost and the capability of completing the assignment to the satisfaction of the ministry.
- Ministries must acquire consultants in such a manner as to avoid any conflict of interest, not permit a vendor to gain a monopoly for a particular kind of work and not continuously rely on a particular outside vendor.

We found that the Division was generally adhering to these principles, with one major exception. The employment of some consultants on an ongoing basis was both inappropriate and uneconomical.

Continued Reliance on Consultants

For example, two consultants had been continuously contracted since 1984. In the 1990 fiscal year, a consulting company was paid a total of \$367,000 for the services of the two consultants. Their last contracts, for a seven-month period, paid \$950 and \$800 a day. The Ministry stated that the consultants' responsibilities would have been equivalent to those of full-time staff earning \$450 and \$320 a day, including benefits.

The Ministry could have saved \$120,000 on these two contracts alone if it had used full-time staff rather than consultants.

The directive that ministries must not continually rely on an outside organization is intended to provide vendors with fair access to consulting assignments. Where there is a recurring need for particular expertise, hiring full-time staff is generally less expensive than continuously hiring consultants, and prevents consultants from gaining a monopoly on a particular kind of work.

Lack of Formal Evaluations

Management Board Guidelines recommend a written evaluation of a consultant's performance on completion of an assignment. Such documentation is to identify issues for improving future contracted assignments.

Written evaluations were prepared for only six of the 94 assignments we examined.

RESPONSE

The Deputy Minister's reply, dated September 11, 1990, included the following comments.

Adherence to Requirements

"Information Systems Division management welcomed the opportunity to co-operate with the Office of the Provincial Auditor during this review. We regard an independent review as an important part of management's own efforts to provide effective resources management.

"We were pleased with the general findings of the report that the Ministry was properly tendering for the acquisition of consulting services and was following government policies and procedures."

Comments on Ministry and Crown Agency Audits

Continued Reliance on Consultants

"The Division agrees with the principles noted in the Management Board Guideline regarding the continued reliance on consultants. The above noted occurrence that resulted in the long-term arrangement was due not to planned decisions.

"The process began with the proper awarding of tenders that were won by the best qualified consultants. The Ministry is aware of its dependence on the two consultants in relation to the redesign of the Health Insurance System. The Ministry regards the complexity of the work performed by these individuals as equivalent to the responsibilities of a senior executive in the public service. Were such individuals, with the required experience, expertise and program knowledge available, the Ministry would naturally prefer to operate on that basis."

Lack of Formal Evaluations

"The Division management agrees that formal evaluations of a consultant's performance, upon completion of an assignment, would be beneficial to the Ministry. The previous practice had been only to document examples of poor performance. The recommendation to evaluate all consultant performance on the completion of an assignment will be adopted."

3.13

OHIP Billings Adequately Monitored, Provider Services Branch, Ministry of Health

The Provider Services Branch monitors the eligibility of billings by doctors and other health practitioners for services under the Ontario Health Insurance Plan (OHIP). During the 1990 fiscal year, OHIP billings totalled over \$4 billion.

SUMMARY

SCOPE AND OBJECTIVE

We assessed the adequacy of the Branch's monitoring procedures.

CONCLUSION AND FINDINGS

The Branch was adequately monitoring OHIP billings:

- . Computerized Medical Rules developed by the Branch were identifying invalid billings by doctors.
- . The Physician Monitoring System was generally working well in identifying unusual billing practices.
- . The Ministry was developing measures to prevent abuse of the provisions for out-of-province treatment of Ontario residents.

However, there were conditions inherent in the system that reduced the effectiveness of monitoring procedures:

- . An average of less than 10 per cent of doctors with unusual billing practices were referred for further investigation and adjudication.

Health

Billings to OHIP

- Since 1986, the number of doctors and services has increased faster than the population.
- Over the past five years there has been a trend towards higher fee services.

BACKGROUND

There are approximately 18,000 physicians and surgeons in Ontario. In 1989, approximately 200 million services (including laboratory services) were performed and billed.

Payments to physicians, surgeons and other practitioners eligible to bill OHIP increased from \$2.7 billion in the 1986 fiscal year to \$4.2 billion in the 1990 fiscal year, or approximately 55 per cent over the four-year period. This represented an average annual increase of about 12 per cent.

The Provider Services Branch has a staff of 40, approximately one-third of whom are doctors, located at Head Office and four regional offices. The Branch has been set up to:

- monitor billings made by doctors and other practitioners and act as the initial adjudicator in fee disputes;
- monitor payments made to other provinces and countries for health care provided to Ontario residents; and
- control over-utilization of the OHIP system.

COMMENTARY

Adequate Review of Billings

Before billings are accepted as correct for payment, medical consultants check them using computerized Medical Rules which reject billings that do not meet programmed criteria. Examples are those that exceed maximum fees under fee schedule codes or frequency restrictions and duplicate billings.

The Rules have generally been working well in uncovering invalid billings. In 1989, this review detected and prevented payments of \$98.7 million in invalid billings, 60 per cent of which were duplicate billings. These were largely situations where the doctor did not receive payment from the Ministry by a certain date and rebilled.

Payment verification letters are sent each month to a random selection of patients who have had recent claims for medical services registered under their OHIP numbers. The letters request confirmation that the patients received the services for which OHIP was billed.

Over 6,000 letters are issued each month. Of the close to 70 per cent who respond, over 99 per cent confirm that the services were provided. Negative responses are investigated and have resulted in some referrals to the Medical Review Committee of the College of Physicians and Surgeons. The MRC has been designated under the Health Insurance Act to investigate and adjudicate fee payment disputes between doctors and the Ministry.

Comments on Ministry and Crown Agency Audits

Adequate Procedures to Identify Unusual Billing Patterns

A computerized Physician Monitoring System was developed in 1983. This System identifies questionable billing patterns by comparing them to a pre-defined model. Doctors making such billings are compared with their peers and measured against five broad criteria (total billings, number of patients, number of services, cost per service, and variations in fee schedule codes used by the particular speciality). Billing patterns identified as unusual are analyzed and referred to the MRC if improper billing is suspected.

When a doctor is referred, the MRC reviews the patients' files and evaluates the billings. If the MRC believes there is evidence to justify proceeding, it holds a hearing. The doctor is entitled to bring counsel. After the hearing, the MRC can agree with the doctor's position or recommend that the payment be partially or totally recovered.

The Physician Monitoring System was generally working well in identifying questionable billings. However, we recommended that it be refined to highlight significant variances in specific services or procedures. At the time of our audit, billings that were well out of the acceptable range in a particular procedure were unlikely to be identified as long as the doctor's overall activity fell within the average practice.

Lack of Referrals

For each of the four years up to and including the 1989 fiscal year, the Physician Monitoring System identified between 750 and 800 doctors with unusual billing patterns. **However, less than 10 per cent of these were referred to the MRC.**

The Ministry informed us that the low percentage of referrals was partly because of MRC's lack of success in proving cases. This in turn was partly due to ambiguities in fee schedules, inadequate patient records and lack of prescribed standards of practice.

In the more than 700 cases not referred to the MRC, reasons were not kept on file. There were no written guidelines for determining when a doctor should be referred to the MRC. In 1984, we also commented on this lack of documentation. The Ministry indicated then that a more formal recording and evaluation process would be put in place, but no action had been taken.

On average, the MRC recommended 35 cases a year for recovery of at least some of the fees paid, a total of \$3.5 million for the four years. The doctors involved represented only 0.2 per cent of doctors in the Province.

Increased Supply of Doctors and Higher Fee Services

According to a 1989 report of the Premier's Council for Health Strategy, a major contributor to rising Ontario Health Insurance expenditures has been the increase in the supply of doctors.

The World Health Organization recommends a doctor per capita ratio of 1:600. Ontario has an average ratio of approximately 1:500.

Health

Billings to OHIP

Most physicians and surgeons are paid on a fee-for-service basis. We compared the number of doctors to the number of services between 1986 and 1989 and found:

- The number of active general practitioners increased from approximately 8,700 to 9,500 (8 per cent) while the population increased from approximately 8.2 million to 8.6 million (5 per cent).

The number of services provided by general practitioners increased in direct proportion to the increase in the number of general practitioners (not to the increase in the population).

- The number of specialists increased from approximately 7,900 to 8,600 (8 per cent) while the number of patients receiving specialist care increased from 1.05 million to 1.08 million (3 per cent).

The number of services rendered increased by over 10 per cent.

We also observed a tendency between 1984 and 1989 to provide higher fee services. We acknowledged that, in part, this was due to an aging population and greater use of high technology equipment in diagnosis and treatment. However, the fee schedule allowed doctors considerable flexibility. For example, the 1989 fees for minor, intermediate and general assessments, for which total payments amounted to over \$750 million, were \$15.10, \$22.90 and \$44.90 respectively. In the five-year period:

- minor assessments declined by over 5 per cent, and
- intermediate and general assessments increased by 35 per cent and 20 per cent respectively.

The Ministry recognized that there were problems with the rapidly increasing number of doctors combined with the open-ended fee-for-service payment system. It imposed a 20 per cent reduction in residency posts over the five-year period between 1987 and 1992. As well, only 24 positions were to be available each year for the foreign internship program.

Good Efforts to Control Out-of-Province Payments

When Ontario residents travel outside the Province, they continue to be covered by OHIP. The coverage is 100 per cent for emergency care and 75 per cent for non-emergency treatment.

For the 1990 fiscal year, \$120 million was paid to various health care institutions and professionals outside the Province. Non-emergency care accounted for \$48 million or 40 per cent, up from 30 per cent three years earlier. Approximately 90 per cent of the payments were made to facilities in the United States.

The Branch was concerned that some out-of-province claims had been inflated. It investigated claims for non-emergency heart-related treatment in the U.S. and found that amounts billed from Michigan hospitals were significantly above those of other states for comparable treatment. The Michigan average was \$25,000 compared to approximately \$20,000 for other states submitting billings for similar treatment.

Comments on Ministry and Crown Agency Audits

The Branch suspected that some Michigan hospitals had been inflating their costs for Ontario patients so Ontario's 75 per cent payment would cover their full cost.

Drug and Alcohol Addiction

In 1990, treatment of drug and alcohol addiction accounted for \$20 million, up from \$7 million in 1989. The public's perception of the lack of treatment facilities for drug and alcohol abuse in Ontario was the major reason for patients going to the U.S. However, the Branch was concerned that U.S. hospitals were luring patients from Ontario. Selling aspects used in recruiting patients included paying their air fare to and from a U.S. hospital and limousine service to and from the airport.

At the time of our audit, the Ministry had delayed payment on approximately \$500,000 in claims from U.S. hospitals. It suspected that costs had been inflated and that the claims were generated by individuals or organizations on behalf of patients recruited for treatment in the U.S.

We were informed that the Ministry was planning measures to prevent this situation from recurring.

RESPONSE

The Deputy Minister responded to our report on September 11, 1990.

Adequate Procedures to Identify Unusual Billing Patterns

"The Provider Services Branch is developing a more sophisticated computer Physician Monitoring System to examine patterns of utilization and practice.

"It is difficult to demonstrate misrepresentation or lack of medical necessity in relation to individual services or procedures. It has been concluded that the threshold parameters for referral to the Medical Review Committee should be based on an analysis of practice patterns for at least one year.

"The new system will initially focus on monitoring physician diagnostic procedures, patient return visits, and patient referral patterns for consultations, diagnostic procedures and laboratory services.

"The new physician profiles computer system will identify physician practices that are significantly above average.

"It is proposed that district medical consultants will contact these physicians to review their patterns of practice. The monitoring process will be continued as appropriate after the consultation process has taken place."

Lack of Referrals

"The Branch conducts a professional assessment of the profiles identified through computer analysis. After this review process had been completed, approximately 10 per cent of the physicians identified initially were referred to Medical Review Committee of the College of Physicians and Surgeons for further examination.

Intergovernmental Affairs

Information Technology Purchases

"Individual files were not established for physicians that were identified but not referred to Medical Review Committee. Summary lists, however, were maintained providing a brief description for the rationale. In future more detailed documentation will be maintained based on more standardized recording procedures."

Increased Supply of Doctors and Higher Fee Services

"The Ministry agrees with the summary information provided which indicates that the number of physicians as well as the number of insured services have been increasing at a more rapid pace than the increase in population in Ontario."

"The Government has been holding discussions with the Ontario Medical Association to develop a new broader framework for future negotiations recognizing the important role that physicians occupy in the provision of health care services across the Province."

Good Efforts to Control Out-of-Province Payments

"The policy framework for the coverage of out-of-country health benefits is currently under review recognizing that there has been a recent upward trend in the provision of insured health benefits for elective procedures."

"The Ministry is continuing to monitor service utilization patterns. It is anticipated that the review process will be completed for implementation in 1991."

3.14 Concerns over Information Technology Purchases, Ministry of Intergovernmental Affairs

The Ministry of Intergovernmental Affairs was established in 1978, with the mandate to "identify and advance Ontario's interests and to conduct relations with the Government of Canada, the other provinces and territories of Canada, and governments abroad and their representatives in Ontario."

The Ministry had expenditures of \$8.2 million for the 1990 fiscal year and a staff of 77 employees.

SUMMARY

SCOPE AND OBJECTIVE

An objective of the audit was to assess whether expenditures of the Ministry were made in accordance with Ministry and Government policy.

CONCLUSIONS AND FINDINGS

PURCHASE OF GOODS AND SERVICES

In most cases, expenditures were made in accordance with Ministry and Government policy. However, we identified some deficiencies in the area of information technology.

Comments on Ministry and Crown Agency Audits

Over \$700,000 was invested in information technology over a three-year period without adequate planning or cost-benefit analysis.

In some cases, policies and procedures set out by Management Board were not followed nor purchases justified. For example:

- . The Ministry's strategic plan did not provide adequate analysis of monetary benefits, nor justification for computer features or configuration.
- . Relevant advice from the Ministry of Government Services was not incorporated into the acquisition process.
- . Computer equipment was purchased with more sophisticated features and at a cost of up to \$100,000 more than needed.
- . Two acquisition proposals totalling \$287,000 lacked meaningful information upon which any reasonable analysis could be made.
- . \$60,000 of hardware and software purchased was not being used.

BACKGROUND

To achieve its mandate the Ministry delivers three major programs: Federal-Provincial Relations; International Relations; and Protocol Services.

The Ministry shares basic administrative services such as accounting, personnel, purchasing and internal audit with the Ministry of Treasury and Economics. A Finance and Administrative Services Branch and a Communications Branch support the major activities of the Ministry. The Communications Branch also provides program information services to other ministries and offices abroad.

COMMENTARY

PURCHASE OF GOODS AND SERVICES

During the 1989 fiscal year the Ministry purchased over \$2.8 million in goods and services from various sources.

We reviewed a sample of these expenditures to ensure that competitive procedures were used when applicable and that expenditures were made in accordance with Ministry and Government policy.

On the basis of our audit tests we concluded that expenditures were generally made in accordance with Ministry and Government policy. However, we had some concerns in the following area.

Information Technology

Prior to the 1987 fiscal year, the Ministry had invested well below the Government average in information technology. With a staff of 69 in January 1987, the Ministry's inventory of computers included 6 personal computers and 17 word processors.

Intergovernmental Affairs

Information Technology Purchases

At the time of our audit in October 1989, the computers and word processors on hand in January 1987 had been disposed of, and the Ministry had purchased 83 personal computers (including 13 laptops), 38 printers and various other peripheral equipment for a staff of 73. **Total costs amounted to approximately \$548,000 for computer hardware, \$85,000 for computer software and \$110,000 for consulting services provided to support computer training, strategic development, management and the maintenance of computers.**

The history of these acquisitions demonstrates the importance of proper planning and the evaluation of benefits versus costs, prior to the purchase of information technology.

Justification for Purchases Lacking

In January 1987 the Ministry produced an internal strategic plan for the acquisition of information technology. This plan included details on the Ministry's environment, strategic directions, impact of technology on improved productivity and the specific needs in the information technology area. **However, the plan did not provide adequate analysis of the monetary benefits associated with these purchases. Nor did it provide justification to support a computer configuration or the number or quality of computers required.**

In February 1987 the Ministry signed a contract for \$15,000 with the Ministry of Government Services, Computer and Telecommunication Services Division (CTS) to produce a tactical and operational plan. A draft report was issued in March 1987 which contained much of the information missing in the Ministry's strategic plan. It also indicated that the Ministry would have to commission a project to determine detailed system requirements. The draft report supported the Ministry's plan for "an integrated office system" (network) to take advantage of integrated features such as text sharing and electronic mail. **Our discussions with CTS indicated that this draft was not acceptable to the Ministry and was never issued in final form.** CTS indicated that the Ministry had already proceeded with the tender to purchase computer equipment in March 1987.

In March 1987, 17 stand-alone personal computers, 9 laser printers and software for a local area network were purchased. Eight vendors responded to the Ministry's request for tender and the lowest bid was accepted.

Although we had no concerns about the basic equipment purchased, we questioned the need for the sophisticated features added on to the basic computers in light of the Ministry's plan to proceed with a local area network:

- Laser printers - The need for almost a three-to-one ratio of computers to printers would be too high in a local area network.
- Colour monitors - The purchase of colour monitors at up to \$1,400 per monitor could not be justified. Discussions with Ministry staff indicated that the colour monitors purchased were to allow for greater productivity in word processing. At the time of audit the Ministry

Comments on Ministry and Crown Agency Audits

operated 13 portable computers without colour monitors and did not incur significant production problems. If colour monitors were necessary we felt that less costly monitors would have been sufficient.

The additional costs of purchasing sophisticated features exceeding network needs could have been as high as \$100,000.

Inadequate Support for Purchases

In November 1988, Management Board issued two new directives on information technology. These directives, titled "Management of Information Technology" (MB Directive 7.1) and "Information Technology Planning" (MB Directive 7.2), along with the existing directive "Data Processing Equipment and Services" (MB Directive 7.10), form the policies and guidance in this area. We reviewed the purchase of information technology by the Ministry for compliance with these directives.

No significant purchases of information technology were made in the 1988 fiscal year. In mid-February 1989 Ministry documents identified a "\$327,000 estimated year-end flexibility (which was) proposed to be used to acquire information technology that would allow a computer for almost every person in the Ministry, consistent with the Ministry's information technology strategic plan." **The Ministry proceeded to develop two acquisition proposals for information technology totalling \$287,000.**

These proposals lacked content and meaningful information upon which any reasonable analysis could be made. For example:

- . Both proposals included a business case as required by Management Board. However, both stated that the "monetary or non-monetary benefits of this proposal cannot be quantified." Management Board directives specifically require that "The business case must itemize in monetary terms all costs, benefits and accumulated benefits on a year-to-year basis until a trend of continuing benefits is ascertained."
- . Both proposals also included an analysis of renting versus purchasing a mini/mainframe computer with a network of terminals. However, the only business case put forward for these alternatives was that a mainframe would cost over \$500,000.

The proposals rejected networking at that time due to the associated costs. This was contrary to the original strategic plan of 1987 and to the current proposed strategic plan of the Ministry.

In March 1989 the Ministry purchased over \$349,000 of computers, peripherals, printers and related software. In our opinion, further analysis could have identified cost savings in the proposals that would have allowed the Ministry to proceed with the development of a network at that time.

Intergovernmental Affairs

Information Technology Purchases

Unused Hardware and Software

Included in the purchases made in March 1989 were:

- a computer twice as fast as the Ministry's standard computer with three times the memory at a cost of \$29,000, including hardware and software. The reason given for the purchase of this computer was the development of a database of dignitaries. Subsequently the database was developed using the Ministry's standard computer and available software. The new computer was being used for other purposes and the software purchased for \$3,700 was not being used at all.
- a slide maker for \$12,400 to make high quality slides for audio visual presentations. Two slide makers were considered for purchase with one being half the cost of the other. The more expensive machine was chosen as it made more professional slides.

Another alternative to purchasing a machine would have been to have slides made by an outside vendor at an initial cost of approximately \$300 and ongoing costs of \$8 per slide.

As of October 1989 this machine remained unopened in storage.

- three CD Roms (Compact Disc storage units) costing \$4,900. One was being used in communications, another to access recent computer articles and the third remained in storage. Two software packages costing \$2,000 for use with these units remained unopened in storage.
- a colour graphics printer for \$1,300. This printer was in storage, unopened.
- a laptop computer purchased for \$6,300 which had been in storage for six months in need of repair.

In total, hardware and software costing approximately \$60,000 were in storage and not being used. We felt that this clearly indicated the lack of an appropriate needs assessment and justification prior to the purchases being made.

RESPONSE

The Deputy Minister responded on May 7, 1990.

Information Technology

"Most of the findings in the report are in some way related to the non-existence of a good, adequate, approved strategic plan.

"A senior manager has been assigned the responsibilities of the Corporate Information Executive and that person will be accountable to the Deputy Minister for compliance with the principles and mandatory requirements contained in the Management Board Directive 7.1."

Comments on Ministry and Crown Agency Audits

Justification for Purchases Lacking

Strategic plan: *"The Ministry has now developed a strategic plan in compliance with Management Board Directive 7.2, which will address the concerns mentioned in the report. The report was submitted for Management Board's approval on March 30, 1990.*

"The installation of a local area network is the basis of the plan. The Ministry's investment in technology will be fully utilized and has been taken into consideration in the cost/benefit analysis of the plan.

Ministry of Government Services commissioned report: *"This report was received in draft form only. For reasons unknown to us the relevant advice contained therein was not incorporated into the acquisition process.*

Purchase of equipment with highly sophisticated features: *"The Ministry agrees that this took place. A good strategic plan would have probably prevented these actions. However, all of this equipment will be used in setting up the network."*

Unused Hardware and Software

"The Ministry agrees with the comment. However, the high speed and high capacity computer will be utilized as a server on the local area network. The Ministry's strategic plan calls for an emphasis on information retrieval, and the CD-ROMs will be used as more subject data bases become available in this format. The colour graphics printer is being set up to produce maps for itineraries, etc. for the Premier, VIPs and others."

3.15

Observations on the Ontario Provincial Police Field Operations and Quartermaster Stores, Ministry of the Solicitor General

The Ministry spent \$416 million in the 1990 fiscal year (Vote 3504) for the Ontario Provincial Police (OPP) to police the provincial highways and those areas without a municipal force. This total included expenditures for Field Operations and the Quartermaster Stores Branch of \$289 million and \$4.5 million respectively.

SUMMARY

SCOPE AND OBJECTIVES

For Field Operations and the Quartermaster Stores, our audit included assessments of whether:

- . field staff were assigned and utilized efficiently; and
- . supplies were purchased economically and adequately controlled.

Solicitor General

Ontario Provincial Police Operations

CONCLUSIONS AND FINDINGS

FIELD OPERATIONS

The assignment and utilization of field staff were satisfactory. The use of a selective response system resulted in better direction of resources.

However, there were opportunities for improvement. We found that:

- . Both criminal and other occurrences and OPP officers' vacations were generally highest in the summer months, while the rate of crimes solved was lowest. Also, detachments had a tendency to understaff on weekends.
- . The amount of time spent by field officers on administrative duties was significant. Each one per cent reduction in administrative time would contribute more than 75,000 hours a year for use in other areas.
- . Officers' administrative time could be reduced through the increased use of civilian staff and a more efficient reporting system. A new automated system being developed should reduce time spent on reporting.

QUARTERMASTER STORES

Supplies were economically purchased and adequately controlled.

- . Controls over the purchase and issue of inventory operated well. Inventory levels had been reduced since our last audit and were properly controlled.
- . Security over weapons had improved considerably.

OTHER MATTER

The majority of speeding tickets were issued for speeds well over the limit. On average, tickets were for speeds 26 kilometres / hour over the limit.

COMMENTARY

Overview

The OPP is divided into three major activities: Services, Field Operations and Investigations. Its staff of approximately 5,700 includes about 4,500 uniformed officers.

As a front-line law enforcement agency for the areas within its jurisdiction, the OPP field staff are responsible for a variety of enforcement activities. In 1988, OPP officers investigated over 84,000 motor vehicle accidents and laid over 680,000 charges for infractions under the Highway Traffic Act, the Criminal Code of Canada, the Liquor Licence Act and other statutes.

Our audit was conducted at Head Office and included visits to seven districts and a number of detachments throughout Ontario. We used a questionnaire to solicit information and opinions from district and detachment commanders as well as police officers. We also used Government databases to generate statistical reports summarizing OPP data. In addition, we revisited many of the issues noted in our 1985 audit.

Comments on Ministry and Crown Agency Audits

FIELD OPERATIONS

Selective Initial Response System Working Adequately

During our 1985 audit, we noted that the OPP was testing a Selective Initial Response (SIR) system which was designed to reduce the amount of time spent on minor occurrences. The system would allow officers to avoid or delay responding to minor occurrences, such as noisy parties or petty disputes, if it was apparent that no law enforcement action was required.

The OPP subsequently implemented the SIR system, which ranked occurrences and resulted in better direction of resources. Approximately 70 per cent of detachment commanders indicated that the system was in place. The remainder indicated that SIR was not necessary in their particular location. Officers using the system found it beneficial.

Inadequate Summer Staffing

Officers' time off should correspond to periods of low criminal and other occurrences to the extent possible. In our 1985 audit, we found that 47 per cent of vacation time was taken during the summer. **Over the last three years, summer vacation scheduling has been reduced to approximately 40 per cent. However, further improvement was warranted:**

- . occurrences were highest during the summer months.
- . **criminal code clearance rates (crimes solved) were lower in the summer months than in the winter months.**
- . 60 per cent of respondents to our questionnaire indicated that the scheduling of vacations in the summer had an adverse effect on the level of service provided.

We acknowledged the OPP policy that allows members with children attending school to take at least one week of vacation during July or August. However, summer vacations could be reduced significantly while still maintaining this policy.

Inadequate Weekend Staffing in Some Detachments

The OPP had developed several work schedule formats. Each detachment commander was responsible for selecting the schedule which provided the most effective match of staff to workload. For detachments with unique occurrence patterns, commanders could design customized work schedules.

We selected 30 detachments to determine how the scheduling of staff related to the pattern of occurrences over a one-year period. We refined the available data by adjusting duty hours to remove court, training and administrative time, thus identifying only those duty hours when officers were available to respond to occurrences.

Solicitor General

Ontario Provincial Police Operations

Our analysis revealed a tendency to understaff the weekends relative to the rate of occurrences. For instance, in one detachment, while almost 45 per cent of all occurrences were on weekends, less than 30 per cent of duty hours were assigned on weekends.

We recommended that the OPP assign staff more in accordance with the pattern of occurrences.

Need to Reduce Administrative Time

In 1985, we found that officer time spent on administration varied between 30 and 40 per cent, depending on the district. In this audit, we found similar results in a review of 34 detachments (14 districts) over a three-year period. **Out of a total of 2.8 million available hours, almost a million hours or 33 per cent was spent on administration.** We were also informed that under the new Police Services Act, administrative time, especially training, was expected to increase.

The results of our questionnaire revealed considerable concern over the amount of time spent on administrative duties. A common complaint from constables was that they were too busy with paperwork to go out and patrol. Patrolling was ranked by both constables and detachment commanders as one of their top three functions, yet according to questionnaires, on average only 15 per cent of total time was spent on patrol. Reducing administrative work would allow for more pro-active policing.

While no ideal percentage for the amount of administrative work had been established, each one per cent reduction in the rate would save more than 75,000 hours a year that the OPP could use in other areas. For example, reducing the rate from 33 to 25 per cent would result in a reduction of over 600,000 hours a year. In terms of staffing, 600,000 hours is equivalent to 300 officers.

Respondents to our questionnaire suggested that more efficient reporting methods would reduce the time officers spend on administration. Respondents also suggested more extensive use of civilian staff.

More Efficient Reporting Required

A majority of detachment commanders and field officers believed that **a more efficient reporting system was necessary to reduce the amount of time spent on paperwork.** A common complaint with both officers and commanders was that the same information was being repeated on a number of forms. For instance, one detachment commander indicated that a drug seizure would result in the same data being recorded at least four times.

The OPP plans a wide implementation of the Ontario Municipal and Provincial Police Automation Co-operation (OMPPAC) System in the near future. Police forces participating in OMPPAC are linked to a main computer (housed at OPP General Headquarters) by a communication network which allows them to store and retrieve data. This system could:

- minimize duplicate data entry;

Comments on Ministry and Crown Agency Audits

- reduce officer time spent on reporting; and
- enable supervisors to assess the workload and status of investigations more quickly.

Potential for Further Use of Civilian Staff

Approximately 20 per cent of the OPP are civilians. The results of our questionnaire revealed that there is potential for further use of civilian staff:

- 13 out of 14 district commanders indicated that there was room for further use of such staff.
- over 50 per cent of detachment commanders felt that there were opportunities for more civilian staff in their own detachments.

Generally, the view of district and detachment commanders was that **increased use of civilian staff would free officers' time and result in monetary savings**. Duties cited as among those that could be done by civilians included statistical gathering and analysis, and court officers' duties. There were approximately 110 full-time court officers and a number of part-time court officers. Their duties include setting court dates, maintaining trial records, reviewing crown briefs, and finalizing reports after court.

QUARTERMASTER STORES

Overview

The Quartermaster Stores Branch is responsible for the acquisition and distribution of weapons, supplies and clothing used by the Force. Branch facilities included a general storage area and a separate security area for weapons.

For items which the OPP felt were valuable or susceptible to theft, a manual perpetual inventory system was maintained. An inventory control card was manually updated to reflect all purchases and issues. The Branch maintained records for approximately 200 items. As of October 1989, these items had a total value of \$2.6 million.

Good Purchasing and Stock Control Procedures

Controls over the purchase and issue of inventory operated well. The Ministry adhered to its policy of requesting competitive bids, or requesting tenders for larger orders.

During our 1985 audit, we reported that several inventory items were greatly overstocked. We noted that none of these items had been re-purchased. **Since our last audit, inventory levels had been reduced and were properly controlled.**

Solicitor General

Ontario Provincial Police Operations

Improved Security over Weapons

Our 1985 review noted several deficiencies in weapons security including broken or open windows, no alarm system, no armed personnel, an open weapons vault, unrestricted access to the weapons cage, and poor sign-out procedures for weapon repair.

We found that security was greatly improved. At the time of our audit access to all storage areas was controlled by security personnel. The weapons storage vault was locked at all times unless occupied, and a motion detector system had been installed in the vault as well as in the area which housed guns marked for destruction. A computer had recently been acquired to assist in weapons control, providing a facility to quickly track the location of any Force weapon.

OTHER MATTER

Need for Stricter Enforcement to Control Speeding

Five years ago the OPP designated traffic enforcement as its top priority. Shortly thereafter the "Strict is Fair" initiative was implemented. Its main thrust was to reduce traffic accidents and fatalities through a strict enforcement of the Highway Traffic Act. One aspect of this initiative was to stress that there would be less tolerance of speeds over the posted limit.

In 1986 the Program Evaluation Branch of the OPP conducted an evaluation of the "Strict is Fair" initiative. The Branch's report emphasized that speeding was the number one cause of accidents within the OPP's jurisdiction. The report concluded that stricter enforcement of speed limits was required. In some detachments, tolerances of up to 30 kilometres/hour (km/hr) over the legal limit were being practised.

The most recent accident statistics from the Ministry of Transportation also indicated that driving too fast for conditions was the most frequently cited driver error in fatal accidents.

We selected a sample of speeding tickets issued at ten detachments to determine if there was still an implicit speed tolerance. **The average speed over the limit for tickets issued was 26 km/hr. Virtually 100 per cent of tickets were for speeds of at least 15 km/hr over the limit.** Such ticketing practices would have no deterrent effect on those who speed up to 15 km/hr over the limit. In addition, we found wide variations in speed tolerance among the ten detachments we reviewed.

The OPP recently introduced an initiative to step up enforcement on highways with a high number of accidents. We recommended that the OPP also put guidelines in place to establish a lower tolerance for speeding and maintain a consistent practice throughout the Province.

Comments on Ministry and Crown Agency Audits

RESPONSE

The Deputy Solicitor General's response dated August 20, 1990 included the following comments.

FIELD OPERATIONS

Selective Initial Response System Working Adequately

"It is pleasing to note that the Selective Initial Response system has been implemented effectively."

Inadequate Summer Staffing

"It is acknowledged that occurrences are highest during the summer months of July, August and September and that absences due to vacations are also highest during this same period. The operating policy of Field Operations is to permit one field member out of six to be absent on vacation during this peak period. This policy has, as well, been incorporated into the Memorandum of Understanding (collective agreement) between OPP management and the Ontario Provincial Police Association (OPPA)."

"Any change in this long standing policy would require negotiation with the OPPA. Additionally, management is aware that in fairness to our employees, reasonable opportunity for summer vacations must be provided in keeping with that afforded all other government employees."

"We are prepared to continue efforts at reducing summer month vacations where possible, but caution that significant reductions below the 40 per cent level may not be possible. Lastly, the concept of offering some form of incentive to encourage members to take vacations during off peak months rather than summer months, will be explored as opportunities arise."

Inadequate Weekend Staffing in Some Detachments

"The widespread implementation of 12 hour shift schedules at the detachment level should have a beneficial impact through a more even distribution of available officers' time over each workday including weekends and holidays."

"The development and posting of detachment shift schedules, and the subsequent changing of individual member shift schedules to respond to changing needs on a short term basis, are subject to terms and conditions set out in the Memorandum of Understanding. Opportunities to further sharpen our ability to respond to workload demands on weekends will be pursued wherever possible."

Need to Reduce Administrative Time

More Efficient Reporting Required

"The implementation of OMPPAC (Ontario Municipal and Provincial Police Automation Co-operation) within the OPP is the number one information technology initiative within the ministry, but depends heavily on the availability of funds which are not currently available."

Liquor Licence Board of Ontario

Potential for Further Use of Civilian Staff

"The potential benefits of increased civilianization within the OPP have been recognized. In this regard, the OPP strategic planning committee appointed a civilianization review committee earlier this year. It is currently evaluating submissions from all GHQ branches regarding the possible civilianization of uniformed positions. The second phase of this committee's mandate will be to conduct a similar exercise encompassing all field locations."

OTHER MATTER

Need for Stricter Enforcement to Control Speeding

"This particular finding appears to contradict the suggestion that there is a need to reduce time spent in court since increased enforcement will necessitate increased costs and time for both police and court officials."

"There are many factors affecting the enforcement of speeding. These include:

- . The discretion of an officer to issue an Offence Notice or warning;*
- . The existing demerit point system;*
- . Posted speed limits, offence location, and highway design;*
- . The amount of fines and driver behaviour."*

"The above factors will be considered in addressing the Provincial Auditor's recommendations."

3.16

Insufficient Inspection Activity and Other Matters, Liquor Licence Board of Ontario

The Liquor Licence Board of Ontario is responsible for the administration of the Liquor Licence Act and its Regulation and for the collection of liquor licence fees.

The Board's revenue and expenditure for the 1990 fiscal year totalled approximately \$427 million and \$10 million respectively.

SUMMARY

SCOPE AND OBJECTIVES

We assessed the adequacy of the Board's:

- . inspection activity to ensure that licensees comply with the Act and Regulation; and*
- . collection procedures for licence fees.*

Comments on Ministry and Crown Agency Audits

CONCLUSIONS AND FINDINGS

INSPECTIONS

The Board's inspection activity was less than satisfactory to ensure compliance by licensees.

- . Inspectors spent only 20 per cent of their time on their primary role of inspecting licensed establishments and Special Occasion Permit events.
- . Inspections ranged from fewer than 50 a year for one inspector to over 700 a year for another. The Board had not monitored the number of inspections carried out by inspectors.

REVENUE COLLECTION

Overall, the Board's collection procedures for licence fees were adequate. However, there was potential for higher income to the Province:

- . Between \$3 million and \$4 million in additional interest income could be generated annually by collecting licence fees from breweries daily instead of monthly.
- . Over \$400,000 in additional licence fees could be collected by fuller application of the liquor legislation.

COMMENTARY

INSPECTIONS

Overview

The Board's Inspection Branch employed 45 inspectors at an average annual salary of \$40,000. Their primary duties were:

- . inspecting the operations of the approximately 14,000 licensed liquor establishments in Ontario; and
- . inspecting Special Occasion Permit events. In the 1990 fiscal year, 130,000 Special Occasion Permits were issued.

The inspectors check that licensees are not breaking the law by serving liquor to intoxicated patrons or persons under the age of 19 years, selling illegally purchased or watered-down liquor, overcrowding their premises, etc.

In addition, the inspectors:

- . review new applications for liquor licences, inspect the premises, and attend public meetings and hearings concerning these applications;
- . liaise with licensees, police and municipal authorities as required.

The workload was distributed across three districts: Central, Western and Northern. The number of establishments an inspector was responsible for ranged from approximately 130 in Northern Ontario to 750 in the City of Toronto.

Liquor Licence Board of Ontario

Inadequate Time Spent on Inspection Activities

Until January 1990, inspectors were required to conduct mandatory inspections of licensed premises once every two years, as well as spot checks at their discretion. Subsequently, mandatory inspections were being gradually phased out in favour of more frequent spot checks.

Every month each inspector received computerized information showing the names of establishments due for mandatory inspections. Inspectors did not have any targets and established their own schedules for both mandatory inspections and spot checks. They worked out of their homes and submitted weekly timesheets to head office showing the time spent on travel, office duties, licensing, and each type of inspection.

We examined 15 inspectors' timesheets and noted that almost 60 per cent of their time was spent on office duties and travel and 20 per cent on new licences, public meetings and liaison activities. Consequently, **only 20 per cent of inspectors' time was available for their primary role of inspecting licensed premises and Special Occasion Permit events.**

Over the past two fiscal years, the following inspections have been conducted:

| | 1990 | 1989 |
|-------------------------------------|---------------|---------------|
| Mandatory inspections | 3,029 | 5,566 |
| Spot checks | 9,860 | 5,219 |
| Special Occasion Permit inspections | <u>1,190</u> | <u>917</u> |
| | <u>14,079</u> | <u>11,702</u> |

Assuming 200 working days a year, the 1990 total represented less than two inspections a day for each of the 45 inspectors. According to the Board, an inspection takes an average of 25 minutes. Considering that the primary duty of inspectors is inspections, we questioned whether they were properly fulfilling their role.

In an internal review in November 1988, the Inspection Branch noted that because of the inspectors' other duties very little time was left for the main function of compliance. It stressed the need to change the inspector's role.

A revised Liquor Licence Act and Regulation were in the process of being finalized. The Board informed us that when the new Act and Regulation were implemented, it would have more flexibility to reassign inspectors from licensing assignments to inspection activities.

Significant Variations in Inspections Conducted

Our comparison of inspectors' timesheets for the 1990 fiscal year showed that **inspections ranged from fewer than 50 a year for one inspector to over 700 a year for another. In many cases, the inspectors were responsible for approximately the same number of establishments but the number of inspections performed varied significantly. For example:**

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| | | # | # | # | |
|-----------------|------------------|-----------------------|--------------------|---------------|--------------------|
| | | | Mandatory | Spot | Total |
| <u>District</u> | <u>Inspector</u> | <u>Establishments</u> | <u>Inspections</u> | <u>Checks</u> | <u>Inspections</u> |
| Central | A | 243 | 70 | 192 | 262 |
| Central | B | 263 | 72 | 86 | 158 |
| Western | C | 226 | 57 | 681 | 738 |
| Western | D | 289 | 45 | 57 | 102 |
| Western | E | 293 | 37 | 11 | 48 |
| Northern | F | 129 | 25 | 40 | 65 |
| Northern | G | 152 | 41 | 613 | 654 |
| Northern | H | 264 | 42 | 78 | 120 |

Also, the amount of time spent by each inspector on spot checks varied significantly. For example, one spent an average of 45 minutes on each spot check whereas another spent only five minutes.

The Board had not sufficiently monitored the number and duration of inspections carried out by inspectors. It was unable to provide a specific explanation for these variances although it indicated that a number of factors, such as distance and the nature and type of establishment, affected the number of inspections that could be carried out.

We were informed that management planned to computerize the Board's management information system in the fall of 1990. This should provide the information needed to monitor inspectors' work more effectively.

REVENUE COLLECTION

Overview

The Board collects over \$400 million in licence fees annually. During the 1990 fiscal year the Board collected the following:

| | (\$ millions) |
|--------------------------|---------------|
| Licence fees - breweries | 376 |
| licensed establishments | 45 |
| Special Occasion Permits | 5 |
| Other | <u>1</u> |
| | 427 |

Breweries pay fees based on the beer shipped for sale or distribution in Ontario. Monthly, the breweries submit their remittances with a form detailing shipments of various types of beer and the applicable fees payable.

Liquor Licence Board of Ontario

Licensed establishments pay fees on the purchase of beer, wine and spirits. Fees on purchases of beer are paid to the Brewers' Warehousing Company Limited and on purchases of wine and spirits to the Liquor Control Board of Ontario. Such fees are remitted to the Liquor Licence Board monthly by Brewers' Warehousing and weekly by the Liquor Control Board.

Potential for Higher Interest Income

Under the provisions of the Excise Act (Canada), the Government of Canada collects excise duties from breweries on a daily or weekly basis depending on the volume of beer produced by the breweries. The Act requires larger breweries to pay the duties daily and smaller breweries to pay weekly. Penalties and interest are imposed on breweries submitting late payments.

There are approximately 30 breweries in Ontario. Ontario's Liquor Licence Act and Regulation do not specify how frequently licence fees should be paid by these breweries. Generally, the breweries pay the fees on or around the tenth day following the end of each month.

The amounts collected are large. For example, during the 1990 fiscal year, the Board collected \$350 million in licence fees from Ontario's three largest breweries. This represented over 80 per cent of the Board's total revenues for the 1990 fiscal year and over twice the amount of excise duties collected by the Government of Canada. **Collecting licence fees daily from Ontario's three largest breweries would generate from \$3 million to \$4 million in additional interest income for the Province.**

The Board's senior management agreed that a collection system similar to that used by the Government of Canada could be easily implemented. The Board also informed us that this matter was under review with the Ministry of Treasury and Economics and indicated that it needed legislative changes before it could institute a new system of collection.

Liquor Licence Regulation Not Fully Applied

Our review of the Liquor Licence Act and Regulation, and discussions with the Board's senior legal counsel, confirmed that **the Board had not been fully applying certain provisions of the legislation. Conservatively, the Board has been losing over \$400,000 annually in licence fee revenue.**

- Legislation specifies that licence fees are to be paid on all beer shipped for sale or distribution in Ontario. We noted that breweries had never paid any fees on beer distributed to their lounges or staff cafeterias. We estimated that, for the 1990 fiscal year, the Board had foregone over \$300,000 in revenue.

As a result of our audit, the Board instructed all breweries that fees were to be paid on beer consumed in-plant. Breweries were instructed that these fees were payable on beer consumed since April 1, 1989 and were due by August 31, 1990.

Comments on Ministry and Crown Agency Audits

- Another provision of the legislation requires licence fees on shipments to duty free sales outlets to be calculated on a sale price based on "the brewer's price of beer for home consumption." However, breweries had always calculated the fees using a lower selling price they charged to duty free outlets. We estimated that in the 1990 fiscal year this error had cost the Board over \$100,000 in lost revenues.

RESPONSE

The August 24, 1990 response from the Chair, Liquor Licence Board of Ontario, included the following comments.

GENERAL

"The Board has taken and is continuing to put in place a number of significant changes which will improve the effectiveness and efficiency of the Board including the inspections function."

"All of [these] initiatives were launched prior to 1990 and will be fully implemented by late 1990. This change in direction is part of an overall strategy to improve and modernize the operations of the LLBO."

INSPECTIONS

Inadequate Time Spent on Inspection Activities

"The Audit Report fails to recognize the broad role played by a Liquor Licence Board inspector. The inspector plays an important role in the issuance of licences."

"In addition, the Report implies that travel and office work are either unproductive or unnecessary which, of course, is inaccurate when dealing with a field operation. Further, the Report fails to recognize that liaison meetings, complaint investigations and proper documentation are important components of the compliance role of the inspector."

"The current Liquor Licence Act and Regulations are complex and require a significant amount of work in the field to process and issue a liquor licence. The liquor inspector spends a significant amount of office time and travel (paper work, phone calls, liaison with local officials, etc.) regarding new licence applications and changes to existing licences. All new applications require at least two on-site visits by the local inspector to ensure that the premises are in compliance with the Act and Regulations before the licence is issued by the Board. Ensuring that new establishments comply with the legislation is as significant a role as subsequent compliance inspections."

"In addition, the local liquor inspector plays a very important role in the regions as a liaison person between the Board and the local police, municipal, fire, health, building officials and citizens. These activities are an effective means of ensuring that licensed establishments comply with the legislation. LLBO inspections rely heavily upon law enforcement agencies to monitor and identify problem establishments."

Liquor Licence Board of Ontario

"The following table depicts the full range of activities performed by an inspector.

| <u>Activity</u> | <u>Fiscal Year</u> | |
|--|-----------------------|----------------------|
| | <u>1988/1989</u> | <u>1989/1990</u> |
| Spot Inspections | 5219 | 9860 |
| Mandatory Inspections | 5566 | 3029 |
| SOP Inspections | 917 | 1190 |
| Transfers | 1168 | 816 |
| Verification/New Licences | 2818 | 2044 |
| New Establishment/Final Reports | 1388 | 1177 |
| Existing Establishment/Final Reports | 1181 | 904 |
| Complaint Investigations | 2180 | 1649 |
| Assist Police | 306 | 300 |
| Correspondence Delivery (eg. service of disciplinary notices) | 5556 | 3825 |
| Licencee Liaison | 5058 | 3874 |
| Attendance at Hearings/Public Meetings | 501 | 407 |
| Police Liaison | 1948 | 2414 |
| Municipal Agency Liaison | 981 | 754 |
| Phone Calls | 60270 | 54810 |
| Liquor Disposal | 4147 | 3624 |
| Other | 7814 | 7846 |
| TOTAL | <u>107,018</u> | <u>98,523</u> |

"The Board has recommended to the Government a more streamlined and simplified Liquor Licence Act and Regulations. When the new Act and Regulations are implemented, the Board will have the flexibility to reassign inspectors from some licensing type of assignments to other types of inspection activities including spot inspections and special occasion permit inspections. For example, verification inspections and liquor disposal activities will be eliminated. Some reassignment of inspection workload was already in place at the time of the Audit and is evident in a 20% increase in inspections in fiscal year ending 1989/90. Spot checks, which concentrate upon problem prone establishments, have increased by over 85%."

Significant Variations in Inspections Conducted

"The variations in amount of time spent by inspectors on inspections is not in our view material. Mandatory inspections and spot checks do not accurately capture all the compliance functions of the inspectors which include licensee liaison, police liaison, complaint investigations. Furthermore, the number of inspections will not necessarily correspond with the number of establishments. Since January 1990, mandatory inspections were dropped and spot inspections increased. Spot inspections are now more a function of the number of problem establishments in an area rather than the total number of establishments. For example, the audit found only one isolated case out of 45 where an inspector was found to be spending a significantly below average amount of time on spot calls. That inspector spent a disproportionate amount of time on license liaison activities."

Comments on Ministry and Crown Agency Audits

"The Board has reviewed the specific cases cited where significant variances were noted. Our explanation is as follows:

Inspector 'E' - This inspector completed 48 inspections. However, this same inspector completed over 400 "Licencee Liaison" activities which is 3 - 4 times the average of other inspectors in this same area.

Inspector 'B' - This inspector completed 158 inspections compared to 262 inspections completed by inspector 'A' in the same central region. Inspector 'B' spends a significant amount of time on union-related activities.

Inspector 'F' - This inspector completed 65 inspections. However, a significant factor resulting in the low number of inspections is the long term illness (approximately 60 days) and vacation (25 days) taken by this inspector. Neither inspector 'G' or 'H' were absent due to sickness during this same time period.

"The variation in the number of inspections conducted per inspector is a result of a number of other factors. The most significant reason is that all inspectors have other duties to perform that often take priority over spot checks. These other activities include new licence applications, transfers, complaint investigations, etc. as outlined in the previous table. The level of activity related to these other duties can vary significantly from one part of the province to another or even within a major city. Geographic distances, size and type of establishments, effectiveness of local police and level of economic activity in a region all impact the need for inspections at any given time.

"The amount of time spent on spot checks averages 25 minutes per inspection. In some cases, a spot inspection can take 5 to 10 minutes. The time required depends upon the number of patrons, cooperation of staff and the presence or absence of any infractions.

"The Board has reviewed and is in the process of adjusting the allocation of inspectors to ensure optimum coverage of all areas of the province taking into account all of the above factors.

"The Board's ability to monitor inspectors will improve with the streamlining of the legislation and the implementation of the new computer system."

REVENUE COLLECTION

Potential for Higher Interest Income

"The LLBO agrees in principle that fees should be collected as early as possible to maximize the revenues to the Province. Acceleration of our collections to a more frequent basis can be accommodated administratively. However, the government is currently engaged in a major review of the competitiveness of the brewery industry and any adjustment of the provincial fee structure or the frequency of revenue collection should be analyzed in this broader context. This proposal is now under consideration as part of the review of the brewery industry."

Office of the Assembly

Liquor Licence Regulation Not Fully Applied

"Upon review of the fee provisions, the Board agreed that beer consumed in the brewery plants should be considered beer 'distributed' in Ontario and therefore, subject to the fees set out in clauses 68(1)(b) and (c) of the Liquor Licence Act Regulations. The Board has recently informed all manufacturers of beer that the fees are to be paid on all beer consumed in-plant under a hospitality lounge licence. They were instructed that this interpretation applied to beer consumed since April 1, 1989 and that all appropriate fees owing from that date were due by the end of August 1990.

"The Liquor Licence Board has correctly interpreted the legislation regarding fees on shipments to duty-free sales outlets, however, the selling prices are determined by the Liquor Control Board.

"The basis for calculating licence fees on shipments to duty free sales outlets is under review with the LCBO. The amount in question has been calculated at less than 3 cents a bottle."

3.17 Opportunities for Travel Cost Savings, Office of the Assembly

The Office of the Assembly was established by the Province of Ontario in December 1974, to provide administrative services to the Legislature and its members.

The 1989 fiscal year expenditures for members' travel and accommodation (Vote 201, item 4) were \$2.2 million. Of this amount approximately \$800,000 pertained to members' vehicle travel.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess whether travel and accommodation expenses incurred by MPPs and committees were in accordance with entitlements or established policies.

CONCLUSION AND FINDINGS

In general, there was adequate support for travel and accommodation expenses of MPPs and committees, and expenses claimed were in accordance with entitlements or policies. However, more economical alternatives could have been used for members' vehicle travel.

COMMENTARY

Overview

All MPPs are entitled to be reimbursed for the costs of travelling within their constituencies and also to and from the Legislative Assembly in Toronto. Other than for air travel, there is no limit to the amount of travel MPPs are permitted and they are not required to disclose the details of their travel itineraries.

Comments on Ministry and Crown Agency Audits

Effective November 1, 1989, the rate of reimbursement for the use of personal cars was 29 cents per kilometre in Southern Ontario and 29.5 cents in Northern Ontario. By comparison, the Ontario Public Service rates were the same for the first 4,000 kilometres, but decreased in increments so that after 24,000 kilometres the rates were 17.5 cents in Southern Ontario and 18 cents in Northern Ontario.

Possible Economies in Travel Costs of MPPs

Using the November 1989 rates and the total kilometres claimed in the year ended March 31, 1989, we calculated that over \$200,000 could be saved annually by using the Ontario Public Service rates to reimburse members.

An examination of travel claims indicated that 13 MPPs had each travelled more than 50,000 kilometres during the 1989 fiscal year. One member's claims totalled almost 80,000 kilometres. Using the Southern Ontario rate of 29 cents per kilometre, the cost of automobile travel for these MPPs would have ranged from \$14,500 to \$23,000. The comparable figures using the Ontario Public Service rates would have ranged from \$10,000 to \$15,000.

Given the high rate of reimbursement and the extensive use of personal cars, it would be more economical for the MPPs to lease cars and pay for the gasoline, insurance and routine maintenance through corporate credit cards. According to the Fleet Management Council of Ontario, **when automobile travel exceeds 19,000 kilometres per year it is more economical to lease or purchase a vehicle than to reimburse for personal car use, even at the graduated Ontario Public Service rates.** In the 1989 fiscal year 74 MPPs exceeded 19,000 kilometres.

We recommended that the Board of Internal Economy consider options for funding MPPs travel costs in the most economical manner.

RESPONSE

The Controller of the Office of the Assembly responded to our report on January 9, 1990.

"As you know, the Board recently approved a revised rate schedule for mileage. Your suggestions for leasing cars will be referred to the Finance Branch for them to prepare a proposal for the Board."

Ontario Cancer Treatment and Research Foundation

3.18

Overseas Recruitment Expenditure, Ontario Cancer Treatment and Research Foundation

The object of the Foundation as stated in the Cancer Act is to establish and conduct a program of research, diagnosis and treatment in cancer. The Foundation delivers patient services through the operations of its eight cancer treatment centres.

For the 1990 fiscal year, revenue and expenditure of the Foundation amounted to approximately \$105 million and \$100 million, respectively.

SUMMARY

SCOPE AND OBJECTIVE

During the 1990 fiscal year, a \$1.1 million program was initiated to recruit Radiation Therapy Technologists from various countries. The program was to be carried out in three phases. Our comments relate only to expenditures incurred for Phase I. At the time of our audit complete information for Phase II was not available and Phase III had not taken place.

We assessed the reasonableness of recruitment expenditures and their compliance with established policies.

CONCLUSION AND FINDINGS

TRAVEL, ACCOMMODATION AND OTHER COSTS

Much of the expenditure incurred was excessive and some expenses were questionable.

ADVERTISING AND PROMOTIONAL SERVICES

Contrary to Foundation policy, a competitive selection process was not followed in acquiring advertising and promotional services costing \$487,000.

BACKGROUND

In October 1989, in response to growing waiting lists for radiation therapy treatment, the Ministry of Health approved \$1.1 million for the operation of the International Radiotherapeutic Technologist Recruitment Program (IRTRP).

The objective of the Program was to recruit all Radiation Therapy Technologists (RTTs) necessary for the efficient and effective operation of the Foundation's cancer treatment centres and the Princess Margaret Hospital. The initial target of the Program was 75 to 125 qualified RTTs.

The Ministry advanced \$672,000 in March 1990 and the remaining \$400,000 in June 1990. The budget for the Program was as follows:

Comments on Ministry and Crown Agency Audits

| | \$ |
|--------------------------------|------------------|
| Advertising | 487,000 |
| RTT's Travel and Accommodation | 338,000 |
| Recruitment | |
| Air travel | 80,000 |
| Accommodation | 87,000 |
| Administration | 80,000 |
| | <u>1,072,000</u> |

Countries targeted for recruitment were:

Phase I: South Africa, Zimbabwe, Malaysia/Singapore, Hong Kong

Phase II: New Zealand, Australia

Phase III: India, Holland, Ireland, Switzerland, United Kingdom

Phase I visits to South Africa, Zimbabwe and Hong Kong took place in February and March 1990. Thirty-six candidates were recruited out of 56 interviewed. Eight of the 36 recruits arrived in July and August 1990, with the remainder expected by early 1991.

Phase II occurred in June 1990 and no date had been set for Phase III.

COMMENTARY

TRAVEL, ACCOMMODATION AND OTHER COSTS

Staffing for Phase I Trip

The Phase I trip involved a team of eight people, including a team leader and representatives from four cancer treatment centres and the Princess Margaret Hospital. Up to three centre representatives individually interviewed each candidate.

Approximately \$49,000 was spent on airline travel and \$51,000 for accommodation. These expenditures were \$22,000 and \$16,000 respectively over the original budget.

We questioned the need for eight people on the trip. In our opinion, the trip should have been taken by no more than three individuals, including one authorized to conduct interviews on behalf of all the centres. We were informed by the team leader that the recruiting approach was approved by both senior management and the Ministry.

Air Travel

According to the Foundation's Policy the most practical and economical means of air travel should be used. However, all staff travelled Business Class. If staff had used Chartered Economy Class, cost savings of approximately \$25,000 (about half of total air travel) could have been achieved.

The team leader told us that the appropriate comparison was not with Chartered Economy Class but with Full-fare Economy Class, in which case the potential

Ontario Cancer Treatment and Research Foundation

cost savings would have been approximately \$6,000. Full-fare Economy provides the flexibility that can accommodate changes in travel plans.

However, we felt that with proper planning any major changes in travel schedules could have been avoided, and that Chartered Economy Class should have been given more consideration.

Accommodation

Recruitment in Hong Kong accounted for almost 50 per cent of the time spent overseas and over 70 per cent of the Phase I accommodation cost of \$51,000. We also noted that 30 interviews were carried out during the 10 days staff were in Hong Kong. Accordingly, we concentrated on the costs incurred during this part of the trip. Our examination of the hotel bills submitted by staff revealed the following:

- The team leader and other staff occupied rooms costing \$460 and \$275 Canadian per night, respectively. The hotel informed us that the cost of a suite similar in size to that of the team leader, but without a view of the harbour, was \$300 Canadian per night. The hotel also told us that the rooms occupied by other Foundation staff were deluxe double-rooms with a harbour view. Single accommodation ranged from \$170 to \$260 Canadian per night and a double room similar in size to that occupied by Foundation staff, but without a harbour view, was \$200 Canadian per night. **We estimated that savings of over \$7,000 could have been achieved if less expensive accommodations had been used.**
- **Personal long distance calls totalling over \$1,100 Canadian were charged by six staff.**
- No documentation was provided for an expenditure of \$460 Canadian.
- **Several instances were noted of restaurant/bar bills ranging from \$150 to as high as \$400 Canadian. Due to a lack of proper documentation we were unable to determine the reasons for these expenses.** In addition, two staff billed for beauty salon services totalling \$175 Canadian. The team leader stated that these services should not have been charged to the Program.

A cash advance of \$5,000 for incidentals was made to the team leader prior to the trip. After the trip the leader submitted a cost report accounting for expenditures totalling \$4,700. However, no invoices or documentation were submitted to prove the validity of the expenses. We felt that procedures should have been in place requiring each person to account for expenditures and obtain receipts wherever possible.

Other Costs

On the return trip, three canvas type bags costing \$800 Canadian were purchased in California and charged to the trip. The team leader

Comments on Ministry and Crown Agency Audits

informed us that the bags were purchased to transport the resumés of candidates and promotional material from the trip. We contacted a luggage store in Toronto and were told that the bags were expensive because of their exclusive nature, and that bags of a similar quality could be purchased for half the price. **We questioned the need to purchase such expensive luggage.**

Car rental expenditure of almost \$1,800, for travel by the team leader in Canada, was charged to the Program. The team leader explained that this was part of his compensation package at the treatment centre where he previously worked and **should not have been charged to the Program.**

Monitoring of Costs

We were informed by the team leader that the responsibility for monitoring Program expenditures was that of the Interim Chief Operating Officer. However, the Officer was no longer involved with the day-to-day operations of the Foundation when most of the cost details were received. Therefore, **for Phase I, reviews of expenditures were not performed.**

ADVERTISING AND PROMOTIONAL SERVICES

Contrary to Foundation policy, an advertising firm was retained without a competitive selection process. The firm was to place advertisements in newspapers and journals in countries where the recruiting team planned to visit, and to provide other services for the recruitment campaign. **The advertising budget of approximately \$487,000 was established by the firm and reviewed by the team leader. The terms of the engagement were outlined in a letter of understanding but no formal contract was signed.**

We were told by the team leader that, due to the urgency of the situation, it was not possible to have a formal competitive selection process nor to obtain oral quotes from various firms. Further, he stated that the decision to bypass the competitive selection process was approved by the then Interim Chief Operating Officer.

RESPONSE

The response from the Chairman, dated September 12, 1990, included the following comments.

GENERAL

"Both points under 'Conclusions and Findings' are overstated. We have provided the Provincial Auditors with explanations as to the urgency of the project and the image we were trying to portray to our potential recruits."

TRAVEL, ACCOMMODATION AND OTHER COSTS

Staffing for Phase I Trip

"The IRTRP was intended to serve the needs of two organizations with different

Ontario Cancer Treatment and Research Foundation

corporate structures and cultures. It was agreed that the program would be designed to balance the economies of a centralized versus decentralized approach to recruitment. The recruitment program was budgeted and approved accordingly.

"Each candidate selected for interview was requested to have individual interviews with up to three centre representatives, and an immigration interview with the Human Resources Specialist. This approach was taken to allow the candidate to choose the location he/she wanted to apply for and to allow for an assessment of the 'chemistry' between the candidate and the individual he/she would eventually be working with. The budget for airline travel was allocated to the three phases on a 'straight line basis'. We are projecting that the entire project will be approximately \$100,000 under the approved budget."

Air Travel

"According to the Foundation's Financial Policies 'the most practical and economical means should be used as determined by the approving authority'. The approving authority considered this to be Business Class and was budgeted accordingly. This class of travel for trips of this length is generally accepted practice in the health care industry. Due to the urgency of making immediate plans, the upcoming holiday season and familial commitments, the travel plans were changed twice before the project got underway. In addition, modifications were made to the itinerary while the trip was in progress. If Chartered/Economy Class had been used no changes would have been allowed without significant penalty. The comfort of the recruiters was also a consideration, given the distance being travelled in three weeks."

Accommodation

"Four out of the ten days which were spent in Hong Kong were weekends. Very few candidates were interviewed during the weekends due to inability to schedule interviews for these days.

"The team leader's room doubled as a reception/meeting/interview room during the week days. The team leader occupied a room comparable to that of other team members during the weekends. The recruiters' rooms doubled as interview rooms during the week. The single accommodation was considered to be too small to facilitate interviewing and was therefore deemed inappropriate. Additionally, at the time the reservations were finally made, having been cancelled twice previously, it was our information that the hotel was fully occupied and there were no more economical accommodations available.

"A portion of the \$1,100 in telephone charges identified as personal were in fact business related calls.

"An expenditure of \$460 Canadian was for [special food needs] supplied to one of the team members for the 10 days while in Hong Kong. [This] food is difficult to obtain in Hong Kong and special arrangements had to be made. At your request we have agreed to have the nature of this expenditure confirmed by the supplier.

"There was only one instance where a restaurant bill was as high as \$400 Canadian and this was for dinner for six members of the project team.

Comments on Ministry and Crown Agency Audits

"Two staff billed for beauty salon service totalling \$175 Canadian. This has been recovered from the staff in question.

"A cash advance of \$5,000 was made to cover the cost of incidentals over the three weeks. This was spent on items where you would not normally expect receipts eg. tips, airport fees, items of a minimal dollar value etc. The unspent portion was returned to the Foundation and an expense summary submitted upon return from Phase I. We are in the process of implementing a procedure which will allow us to better monitor this type of expenditure in the future."

Other Costs

"Three canvas type bags costing over \$800 Canadian were purchased to transport resumes of candidates and promotional material for the recruiting effort. These bags are made of durable canvas of a weight deemed necessary to carry the materials for two more phases of the campaign. The previous containers had broken, causing some embarrassment to the carrier. These bags are available for the future benefit of the Foundation. Recognizing the long term nature of this purchase, we will allocate only \$100.00 of the total expenditure to the ITRP.

"Car rental expenditures of almost \$1,800 for travel by the team leader in Ontario [and Quebec] had been charged to the recruitment campaign in error. These have now been transferred to the appropriate cost centre."

Monitoring of Costs

"The responsibility for monitoring project expenditures against the budget which had been previously approved by the Interim Chief Operating Officer and the Ministry of Health was that of the Team Leader."

ADVERTISING AND PROMOTIONAL SERVICES

"The Foundation policy with regard to tendering is that 3 written quotes must be obtained for any purchase over \$2,000. This policy is clearly out-dated and requires revision. It was considered by the Senior Management of the Foundation that, due to the significant shortage of RTTs, and time being of the essence, that the tendering process would hamper our ability to complete the project on schedule. The supplier chosen was one which had been recommended by an affiliated Health Sciences Centre and one with which we had prior success in recruitment activities of a similar nature.

"The total advertising budget was \$488,000 of which in excess of \$350,000 was spent on direct newspaper and journal advertising. The advertising firm had no control over direct newspaper and journal advertising decisions. The overall advertising budget was compiled by the Team Leader and reviewed and agreed to by representatives of the Human Resources department at [Princess Margaret Hospital] PMH prior to submission to the Interim Chief Operating Officer and the Ministry of Health for approval."

The Public Trustee of the Province of Ontario

CONCLUDING REMARKS

"The International Radiotherapeutic Technologists' Recruitment Programme represents a cooperative effort between [Ontario Cancer Treatment and Research Foundation] OCTRF and PMH in addressing a significant manpower shortage which threatened to cripple the cancer care system in the province. We achieved our recruiting target at an expenditure level below that which was approved by the Ministry of Health. We consider the program to have been a successful initiative."

3.19

Inadequate Safeguarding of Valuables, The Public Trustee of the Province of Ontario

The office of the Public Trustee is responsible primarily for administering the estates and trusts of mentally incompetent individuals. As of March 31, 1990 it administered over 20,000 estates and trusts having assets valued at \$495 million. Each year the office staff, which numbered 175 in 1990, processes an estimated one million financial transactions for these estates and trusts.

SUMMARY

OBSERVATIONS

During our current year's audit we noted that:

- . Access to valuables in safekeeping was not adequately restricted and there were other control weaknesses in the safeguarding of these valuables.
- . Valuables held in trust were missing. Police were investigating.

COMMENTARY

Weaknesses Noted in the Safeguarding of Valuables

As at March 31, 1990, the office of the Public Trustee was responsible for the safekeeping of approximately \$275,000 worth of gold bars, coins, currency and jewellery belonging to its clients.

In our report for the 1988 fiscal year, we expressed concern that there were too many custodians (14 employees at the time) with access to valuables. These custodians were also responsible for maintaining accounting records.

During our current audit, we noted that about 20 employees had access to valuables. We also noted several other control weaknesses. For example:

- . Record keeping was inadequate. Computerized client records and manual ledger cards had never been reconciled. Also, the cards did not identify vault and cabinet locations of items and many of the cards were missing, both during our count and during a follow-up count by the Public Trustee's office.
- . Locks and combinations to the vaults and safes had not been changed since May 1989.
- . Vaults were left open after normal business hours.

Comments on Ministry and Crown Agency Audits

Between April and June 1990, the Public Trustee's Internal Auditor and Chief Accountant conducted special reviews. They made several recommendations to improve the safeguarding of valuables.

At the conclusion of our audit, the Public Trustee's office had implemented some of the recommendations. It was considering other corrective measures to ensure valuables will be properly safeguarded in the future.

Disappearance of Valuables

In early April 1990, we examined a sample of items valued at approximately \$55,000. **We noted that items worth over \$17,000 were missing.**

As a result, in May and June the Public Trustee's office conducted a complete count of all valuables. **Items belonging to 22 clients, and having a value of approximately \$40,000, could not be located.**

In July 1990, the Public Trustee's office informed the Ontario Provincial Police and reimbursed the 22 clients \$40,000 for the missing items. An OPP investigation was under way at the conclusion of our audit.

RESPONSE

The foregoing comments were included in a report dated August 29, 1990. As of the reporting deadline (September 14, 1990), no response had been received from the Public Trustee.

3.20

Newly Established, Reactivated, Terminated and Inactive Crown Agencies

During the 1990 fiscal year no new agencies of the Crown or Crown controlled corporations were established. However, the status of seven agencies changed during the year.

CHANGES IN DESIGNATION OF AGENCIES

Revised agency legislation passed during the 1990 fiscal year included provisions which resulted in agencies of the Crown being redesignated as Crown controlled corporations, as defined in the Audit Act.

McMichael Canadian Collection to McMichael Canadian Art Collection

The McMichael Canadian Art Collection Act, 1989, which received Royal Assent on July 13, 1989, requires the financial statements of the McMichael Canadian Art Collection to be audited annually by an auditor appointed by the Board of Trustees.

Public Service Superannuation Fund to Public Service Pension Board

The Public Service Pension Act, 1989 was passed on December 18, 1989 and came into force on December 31, 1989. The Act provides for the continuation of the Public Service Superannuation Commission (administrator of the Fund) as the Public Service Pension Board which is constituted as a corporation without share capital.

Newly Established, Reactivated, Terminated and Inactive Crown Agencies

Teachers' Superannuation Fund to Ontario Teachers' Pension Plan Board

The Teachers' Pension Act, 1989 was passed on December 20, 1989 and came into force on December 31, 1989. The Act provides for the continuation of the Teachers' Superannuation Commission (administrator of the Fund) as the Ontario Teachers Pension Plan Board which is constituted as a corporation without share capital.

Under the Pension Benefits Act, 1987, annual audits of the pension funds will be performed by auditors appointed by the respective pension boards.

In addition, the following are no longer agencies of the Crown.

Star Transfer Limited

The Owen Sound Transportation Company Limited

In the past the Provincial Auditor had been appointed to audit these subsidiaries of the Ontario Northland Transportation Commission.

As the Provincial Auditor audits the consolidated financial statements of the Commission which includes the accounts of these subsidiaries, the Commission no longer considers separate audits to be necessary.

REACTIVATED AGENCY

North Pickering Development Corporation

The Corporation has been inactive since the 1980 fiscal year. On November 29, 1989 Cabinet approved a request from the Ministry of Housing to reactivate the Corporation for the purpose of planning and constructing the proposed Town of Seaton. The Corporation is expected to become operational during the 1991 fiscal year.

TERMINATED AGENCY

Ontario Centre for Advanced Manufacturing

In accordance with a January 1988 Government directive, the Crown controlled corporation was privatized, with a portion of its assets being transferred to a private corporation during 1989. The Corporation was dissolved effective December 31, 1989 and all the remaining assets, rights, obligations and liabilities were transferred to the Province.

Comments on Ministry and Crown Agency Audits

INACTIVE AGENCIES

As at March 31, 1990 there were five inactive Crown agencies.

Agencies of the Crown

The John Graves Simcoe Memorial Foundation
Ontario Deposit Insurance Corporation
Ontario Land Corporation
Ontario Pavilion Expo '86

Crown Controlled Corporation

Ontario Van Pool Organization Limited

CHAPTER

4

PUBLIC ACCOUNTS
OF THE PROVINCE

CHAPTER 4

PUBLIC ACCOUNTS OF THE PROVINCE

4.1 Preparation of the Public Accounts

In accordance with the Ministry of Treasury and Economics Act, the three volumes of the Public Accounts are prepared under the direction of the Treasurer. They are delivered to the Lieutenant Governor in Council and are laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

The audit of the Public Accounts consists of an examination of the financial statements of the Province on which the Provincial Auditor expresses an opinion, and a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- (a) in which the Province has an investment, or
- (b) which have borrowed from the Province, or
- (c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies, which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments. The expenditures are shown under two main categories: Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

4.2 Financial Statements of the Province

The audited financial statements of the Province for the year ended March 31, 1990 are reproduced in the Province's Financial Report and in the Public Accounts, Volume 1. The financial statements and notes disclose, in summary form, the financial activities of the Province for the fiscal year. They also report on the significant aspects of the Province's financial position at the close of the fiscal year.

An integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on pages 1-2 and 1-3 of Volume 1 of the 1989-90 Public Accounts. Such a Summary is included in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of Government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by profit-oriented enterprises and those followed by Government.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are designed to provide an accounting of the financial resources appropriated by the Ontario Legislature. Accordingly, the financial transactions of the Government are set out as Consolidated

Public Accounts of the Province

Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow for an additional 30 days to pay for obligations incurred during the fiscal year just ended.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and is no less informative than the accrual basis of accounting. The method used is appropriate to the needs of its two primary user groups, legislators and the general public.

The Office of the Provincial Auditor fully supports this position.

4.3 Provincial Auditor's Opinion

Under the Audit Act, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts. Furthermore, this opinion states whether these policies have been applied consistently with those of the preceding year.

The Provincial Auditor's opinion is stated as follows:

I have examined the statement of financial position of the Province of Ontario as at March 31, 1990 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

With respect to the terms "in my opinion" and "present fairly" in the preceding paragraph, my examination was carried out to provide me with a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$80 million.



Toronto, Ontario.
July 20, 1990.

D.F. Archer, F.C.A.,
Provincial Auditor.

Advance Payments Affecting the Deficit

4.4

Advance Payment of Expenditure - Its Effect on the Deficit

1989 Fiscal Year

In Section 4.4 of our 1989 Report, we commented on the advance payment of grants totalling \$823 million to municipalities, school boards, universities and community colleges. These grants, which normally would have been paid in the 1990 fiscal year, were preflowed to recipients and charged to expenditure for the year ended March 31, 1989.

These advance payments, while authorized by Supplementary Estimates and Management Board Orders, were not included in the Budget for that year.

The following is a comparison of the budgeted deficit, the reported deficit and what the deficit would have been assuming there had been no unbudgeted preflows.

| | Deficit | \$ millions Variation from Budget |
|---------------------------|---------|---|
| Budgeted | 1,544 | - |
| Reported | 1,479 | (65) |
| If no unbudgeted preflows | 656 | (888) |

1990 Fiscal Year

Capital grants to school boards, universities and community colleges (\$410 million) were again preflowed. However, prepayments of unconditional grants to municipalities (\$413 million) were not. The effects of both the continued and discontinued preflows were included in the 1990 fiscal year Budget and, therefore, neither would impact the comparison of budgeted and actual results.

However, two unbudgeted preflows, totalling \$474 million, were also made in the current fiscal year. Operating grants to hospitals (\$334 million) and unfunded liability payments to the Ontario Teachers' Pension Fund (\$140 million) which normally would have been paid in the 1991 fiscal year were advanced in the current (1990) fiscal year.

Similar to the previous year's preflows, these advance payments, although authorized, did affect the actual to budget comparison.

The following is a comparison of the budgeted deficit, the reported surplus and what the surplus would have been assuming there had been no unbudgeted preflows.

| | Deficit/(Surplus) | \$ millions Variation from Budget |
|---------------------------|-------------------|---|
| Budgeted | 577 | - |
| Reported | (90) | (667) |
| If no unbudgeted preflows | (564) | (1,141) |

Public Accounts of the Province

Accountability for Budget

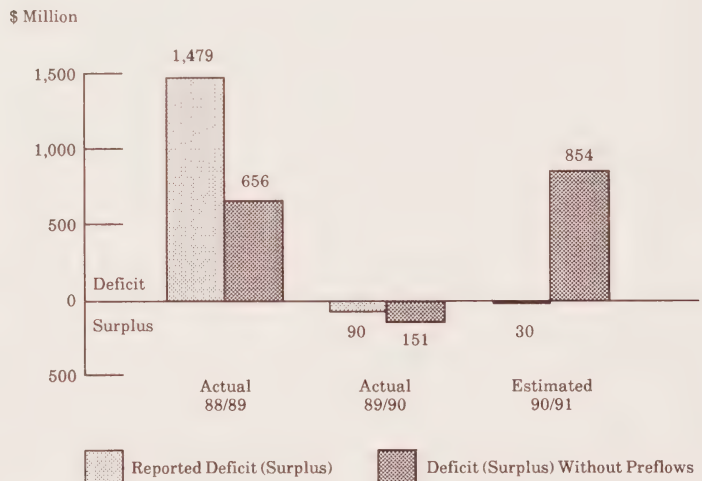
The effect of the Government's recent practice of unbudgeted advance payments has been to shift expenditures forward into years for which they were not planned, thus affecting the comparability of budgeted plan to actual results, an important accountability measure of the Government.

When such advance payments are not budgeted and are announced in the latter part of fiscal years, there is a perception that the Government is, in reality, managing and adjusting its actual results so they will more closely parallel its budgeted results. This, in turn, raises doubts concerning the integrity of the accounting process.

Irregular Preflows

At March 31, 1990 the accumulated total of budgeted and unbudgeted preflows was \$884 million. These preflows have been effectively reversed in 1991 as no provision was made in the Budget for any preflows.

Irregular preflows, both budgeted and unbudgeted, can be viewed as an attempt to "manage" operating results. The following graph shows a comparison of reported operating results (deficit/surplus) with what they would have been in the absence of expenditure preflows in 1989 and 1990. It also depicts the reversing effect of previous preflows on the 1991 Budget.



Questions concerning the intent of preflows have been raised in the Legislature in both 1989 and 1990. Media comment has also been evident. In order to allay any doubts concerning the integrity of the accounting process, we recommend that the Government consider excluding any future preflows from expenditures and treating them instead as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to expenditure in the succeeding year.

The Consolidated Revenue Fund

4.5

The Consolidated Revenue Fund - Authorized and Actual Payments

Authorized Payments

In our parliamentary system of government all public monies received are deposited in a single fund, the Consolidated Revenue Fund. The pooled monies of the Fund are only made available for expenditure by specific approval and appropriation by the Legislative Assembly. Thus the payments out of the Consolidated Revenue Fund are made pursuant to the following approval mechanisms.

Voted Appropriations

Estimates and Supplementary Estimates are formalized annually as Voted Appropriations when the Legislature approves the Supply Act.

When the Legislature is in session, motions of interim supply adopted by the Legislature authorize payments from appropriations prior to the passage of the Supply Act.

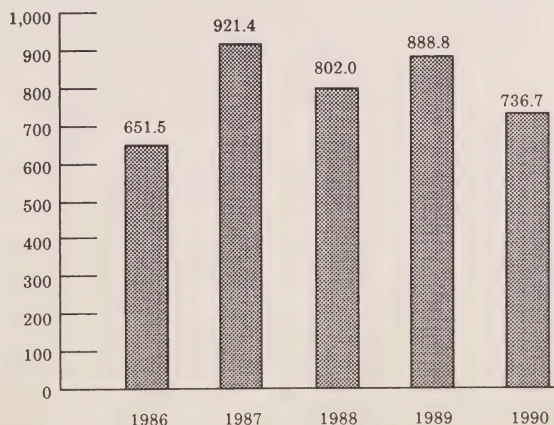
The Supply Act, 1989, covering the year ended March 31, 1990, received Royal Assent on December 20, 1989.

Management Board Orders

Where a Voted Appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, Section 5 of the Management Board of Cabinet Act provides that the Board may make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:

(\$ millions)



Public Accounts of the Province

The Management Board Orders for the 1990 fiscal year are summarized by month of issue as follows :

| Month of Issue | Number | Authorized \$ | % |
|---------------------------------|-----------|--------------------|--------------|
| August 1989 to February 1990 | 13 | 48,428,900 | 6.6 |
| March 1990 | 17 | 473,178,000 | 64.2 |
| April 1990 | <u>34</u> | <u>215,120,900</u> | <u>29.2</u> |
| | <u>64</u> | <u>736,727,800</u> | <u>100.0</u> |

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

Special Warrants

When the Legislature is not in session, Section 4 of the Management Board of Cabinet Act provides for the issue of a Special Warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good. Special Warrants are authorized by orders in council approved by the Lieutenant Governor on the recommendation of the Government.

No Special Warrants were issued during the 1990 fiscal year.

Statutory Appropriations

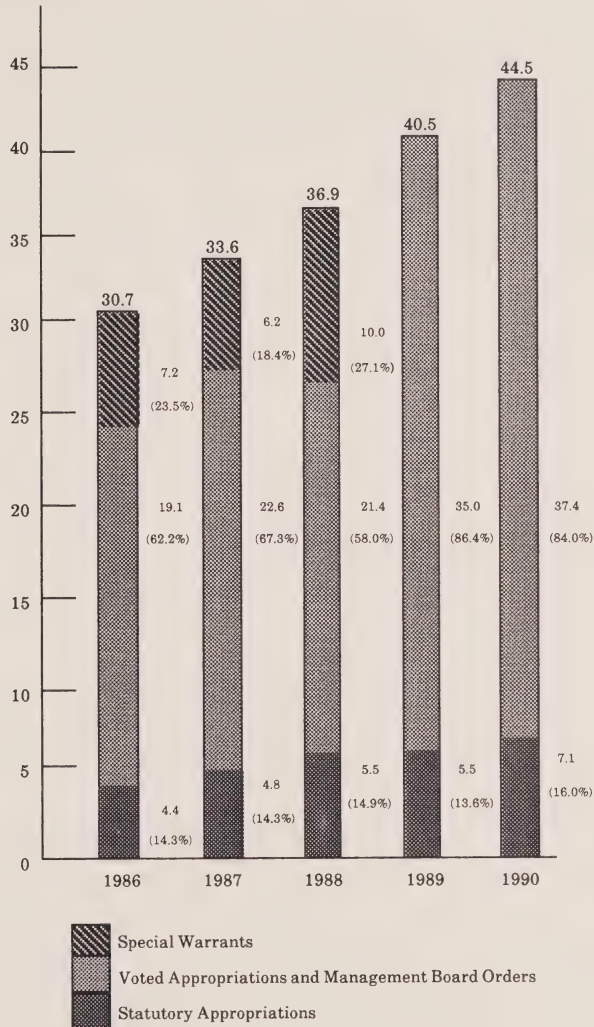
Payments from Statutory Appropriations represent those where the specific authority to spend money from the Consolidated Revenue Fund is expressly contained in a statute of the Legislature.

Once a statute is enacted by the Legislature no further specific approval of statutory expenditures is required. However, for the information of the Legislature, Statutory Appropriations are noted in the annual Estimates and represent the amount the Government estimates will be spent in accordance with the authority given in the various statutes. Unlike Voted Appropriations, Statutory Appropriations do not require Management Board Orders when spending exceeds the estimated amount.

The Consolidated Revenue Fund

Authorized Payments: Five-year Summary

(\$ billions)



Public Accounts of the Province

Actual Payments

The following is a comparative summary (in \$ billions) of payments out of the Consolidated Revenue Fund:

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Voted Appropriations | | | | | |
| Estimates | 17.9 | 21.0 | 20.0 | 33.3 | 35.9 |
| Management Board Orders | <u>.6</u> | <u>.9</u> | <u>.8</u> | <u>.9</u> | <u>.7</u> |
| | 18.5 | 21.9 | 20.8 | 34.2 | 36.6 |
| Statutory Appropriations | 4.4 | 4.8 | 5.5 | 5.5 | 7.1 |
| Special Warrants | <u>7.2</u> | <u>6.2</u> | <u>9.9</u> | - | - |
| Total Payments | <u>30.1</u> | <u>32.9</u> | <u>36.2</u> | <u>39.7</u> | <u>43.7</u> |

Comparison of Authorized and Actual Expenditures

The comparison for the fiscal year ended March 31, 1990 is as follows:

| | Authorized (\$ millions) | Actual (\$ millions) | Actual Under (Over) Authorized (\$ millions) |
|-------------------------|-----------------------------|-------------------------|---|
| Voted Appropriations | | | |
| Estimates | 36,704 | 35,929 | 775 |
| Management Board Orders | <u>737</u> | <u>703</u> | <u>34</u> |
| | <u>37,441</u> | <u>36,632</u> | <u>809</u> |

The total actual payments of \$36,632 million were slightly less than the voted amount of \$36,704 million authorized in the Supply Act. Ministries anticipating overexpenditure situations in their programs obtained authorization for the additional spending through Management Board Orders. As a result, expenditures were \$809 million less than the total authorized.

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

Expenditure Controls Circumvented

As previously noted, Section 5 of the Management Board of Cabinet Act allows the Board to issue Management Board Orders to authorize payments that would otherwise cause previously approved appropriation limits to be exceeded. For the fiscal year ended March 31, 1989, we examined a sample of expenditures at six ministries for adherence to Section 5.

In five of the six ministries we noted instances where, in our opinion, the provisions of Section 5 of the Act were circumvented. Expenditures of approximately \$1.8 million were not charged to the appropriations of the

The Consolidated Revenue Fund

activities to which the expenditures pertained. Expenditures had been inappropriately transferred from one activity to another to avoid overexpenditures of approved spending limits being disclosed in the Public Accounts.

Examples of significant inappropriate transfers are as follows:

- The Ministry of the Attorney General avoided identifying overspending by charging various expenditures to Activities other than those to which the expenditures pertained. For example, nearly \$700,000 in expenditures for other Activities were misallocated to the Contingency Fund of the Administrative Services Program, Main Office Activity (Vote 302, Item 1). The purpose of the Fund was to provide for one time expenditures of an emergency nature which could not be funded from the existing allocation for a particular Activity. However, the Fund was charged with expenditures such as office furniture and supplies, computer workstations, and Official Guardian legal fees related to child protection.

In its response the Ministry indicated that in the 1989 fiscal year it was unable to forecast the year-end position accurately until the time limit for obtaining Management Board Orders had expired.

The Ministry was in the process of acquiring a new corporate financial system which would identify financial pressures as they occurred. The system is to be in place for the 1991 fiscal year.

- The Ministry of the Solicitor General transferred \$316,000 in accountable advance payments from the Ontario Provincial Police (OPP) Field Operations Activity (Vote 3504, Item 3) to the OPP Investigations Activity (Vote 3504, Item 4).

Initially, the payment was allocated to the proper accounts. However, this resulted in the Field Operations Activity exceeding its appropriation by \$281,000. On May 12, 1989, a "correcting" journal entry was processed to transfer the entire \$316,000 from Field Operations to Investigations for the 1989 fiscal year.

The Ministry noted that there had been a historical problem in allocating and controlling expenditures across the various divisions of the OPP. Accordingly, the Ministry merged all operational funding into one Vote and Item for the 1990 fiscal year.

- At the Ministry of Natural Resources only \$24,000 of a \$200,000 expenditure, for the maintenance of stream gauges used solely by the Conservation Authorities and Water Management Activity, was charged to the Activity (Vote 2702, Item 1). The remaining \$176,000 was allocated to the Surveys and Mapping Activity (Vote 2702, Item 6). If the entire \$200,000 had been charged to Item 1, it would have been overspent by \$176,000 in the 1989 fiscal year.

Our review of similar charges for the 1990 fiscal year indicated that they were consistently charged to the Conservation Authorities and Water Management Activity.

Public Accounts of the Province

In its response the Ministry agreed that the entire \$200,000 expenditure should have been charged to the Conservation Authorities and Water Management Activity. Due to an error in coding, the Ministry was not aware of the shortfall in the appropriation and therefore could not include the required amount in the year-end submission for a Management Board Order. Subsequently the Ministry issued a memorandum to all staff reminding them of their responsibility for ensuring the proper allocation and recording of expenditures.

Overexpenditure of Certain Appropriations

During our March 31, 1990 audit of the Public Accounts, we noted that the Ministry of Financial Institutions had failed to obtain Management Board Orders to authorize expenditures which exceeded existing spending limits (the appropriations) by \$2,384,365. Five of its Activities (Vote 1601, Items 3 and 4; Vote 1602, Items 1, 2 and 4) were affected. This situation had resulted from an inadvertent error by the Ministry in its year-end submission for a Management Board Order.

4.6

Write-off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

Public Accounts Presentation

As explained in the Public Accounts' Summary of Significant Accounting Policies, the assets recorded in the financial statements are those resulting from financial claims on other parties which have been created by cash transactions. Accordingly, loans, advances and investments made by the Province are normally included as assets on the Statement of Financial Position. Accounts receivable, on the other hand, are not so included, since they are not the result of cash transactions.

For the most part, accounts receivable represent amounts owing to the Province under various revenue-producing activities. In addition, certain loans are included in memorandum accounts receivable rather than on the Statement of Financial Position. These loans have one or more of the following characteristics:

- either no specific security or security of limited value;
- no specific repayment terms;
- repayment is conditional only on future uncertain events.

These loans are considered to be in the nature of "recoverable grants" and are treated as expenditure when made. When repayments are received, they are treated as revenue. The major examples of loans in this category are the Ontario

Write-off of Uncollectible Accounts

Rental Construction Loan Program and the Non-Residential Rental Conversion Pilot Project.

A memorandum listing of the \$1.1 billion in outstanding accounts receivable as at March 31, 1990 (1989 \$.9 billion) is provided on pages 3-24 to 3-27 of Volume 1 of the Public Accounts.

Most write-offs do not affect the Net Debt of the Province as they relate to the memorandum accounts receivable. The major exceptions relate to the write-off of performance and term loans made by the Development Corporations from funds advanced by the Province. The advances are recorded as assets in the Statement of Financial Position. When performance loans are forgiven, or term loans are deemed uncollectible, the Corporations write off the loans, and monies appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances. The appropriated monies are treated as expenditures for Public Accounts purposes and thus affect the Province's Net Debt.

Adherence to Policies and Procedures

During the year, we assessed, on a cross-ministry basis, whether write-offs were in accordance with Government policies and procedures. The key policies and procedures include those relating to the annual submission of recommended write-offs to the Ministry of Treasury and Economics; documentation of collection efforts and justification for the write-offs; and obtaining Orders in Council to authorize the write-offs.

We examined a sample of accounts receivable write-offs at five ministries - Agriculture and Food; Attorney General; Financial Institutions; Industry, Trade and Technology; Revenue. These ministries accounted for approximately 94 per cent of the \$76 million written off by Ontario Government ministries in 1989.

We concluded that write-offs were in accordance with Government policies and procedures.

1990 Write-offs

A total of \$90.7 million was written off in the 1990 fiscal year (1989 \$75.9 million), as indicated on page 3-21 of Volume 1 of the Public Accounts. The two major write-offs for 1990 related to the following:

- The Ministry of Community and Social Services wrote off \$39.3 million with respect to overpayments under the Family Benefits Act. During the 1990 fiscal year the ministry completed a comprehensive review of overpayments to identify those cases where: no payments had ever been made; administrative and collection costs would exceed the actual amount collectible; debtors were deceased, unable to repay or their whereabouts were unknown. This resulted in the write-off of over 25,000 overpayment cases dating back as far as 1972.
- A \$19.1 million write-off by the Ministry of Revenue for unpaid taxes and GAINS overpayments. The major write-offs were as follows:

Public Accounts of the Province

(\$ millions)

| | |
|----------------------|-----|
| Retail Sales Tax Act | 9.1 |
| Corporations Tax Act | 5.9 |

Other write-offs of uncollectible debts included the following:

The Ministry of Agriculture and Food wrote off \$8.7 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represented the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

A \$8.6 million write-off by the Ministry of Industry, Trade and Technology for uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.

The Ministry of Financial Institutions wrote off \$7.1 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off related to situations where: no judgement was issued and the debt is no longer considered collectible; payments were made from the Fund when unidentified hit and run drivers were involved; no payments were made on claims/judgements for five years.

Uncollectible accounts totalling \$4.2 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. The majority of these write-offs involved accounts at least four years old.

The Ministry of Colleges and Universities wrote off \$1.8 million for various student support programs. The major portion of this write-off pertained to loans made to students who were unable to pay or whose whereabouts were unknown.

4.7

Transfers Authorized by Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, the Provincial Auditor is required to make special mention of the transfer(s) in his report.

In respect of the 1989-90 expenditure estimates, the following transfers totalling \$1,642,200 were made within Vote 201:

| | | | | |
|-------|-----------|--|----|-----------|
| From: | Item 2 | Office of the Clerk | \$ | 263,400 |
| | Item 5 | Members' Support Services | | 1,378,800 |
| To: | Item 3 | Sessional Requirements | | 995,900 |
| | Item 4 | Members' Indemnities | | 369,400 |
| | Item 8 | Hansard | | 263,400 |
| | Statutory | Contribution to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act | | 13,500 |

CHAPTER

5OFFICE OF THE
PROVINCIAL AUDITOR

CHAPTER 5

OFFICE OF THE PROVINCIAL AUDITOR

5.1

Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is not an employee of the Government. Rather, the Auditor is appointed an officer of the Legislative Assembly, and therefore is accountable to the public through their elected representatives.

Administratively, the Office of the Provincial Auditor is distinctly separate from any Government ministry or Crown agency, and its employees are not members of the public service. Moreover, for Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process.

In accordance with the Audit Act, a firm of chartered accountants has audited the Office's expenditures for the 1990 fiscal year. The audited statement of expenditure has been submitted to the Board of Internal Economy and tabled in the Assembly. It is reproduced in Section 5.10.

5.2

Office Goals

The primary goal of the Provincial Auditor is:

- . to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- . to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

5.3

Audit Responsibilities

Auditing in Government comprises the following areas:

- . ministries, including transfer payment recipients;
- . agencies of the Crown and Crown controlled corporations; and
- . the Province's financial statements.

The participants in the audit process may include internal auditors, public accounting firms and the Provincial Auditor.

Office of the Provincial Auditor

The Provincial Auditor

Primary Responsibility

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

However, the Office does not audit Government policies, or information contained in Cabinet documents used in policy deliberations or decisions. Accountability for policy matters is achieved through the Legislature continually monitoring and challenging Government policies and programs, by means of questions in the House and reviews of legislation and estimates of expenditures.

MINISTRIES

All ministries are subject to audit by the Provincial Auditor per section 9(1) of the Audit Act. These audits are primarily of a value for money nature. Annual attest audit work is also conducted to enable the Provincial Auditor to express an opinion on the Province's financial statements. A listing of the ministry audits covered by this Report appears in Exhibit 2.

AGENCIES OF THE CROWN

Section 9(2) of the Audit Act requires the Provincial Auditor to audit those agencies of the Crown which are not audited by another auditor. These agencies are listed in part (i) of Exhibit 3.

Additional Audit Responsibilities

Under section 16 of the Act, the Standing Committee on Public Accounts may direct the Provincial Auditor to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

Other Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their audits focus on controls for the safeguarding of assets and the accuracy of essential financial information, and on controls concerned with value for money and accountability considerations. In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry/agency internal audit branches.

Audit Activities

Section 9(2) of the Audit Act requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor, together with a copy of their findings and recommendations to management (management letter).

The agencies of the Crown and Crown controlled corporations audited by public accounting firms are listed in Exhibit 3 part (ii) and Exhibit 4, respectively.

5.4

Audit Activities

Types of Audits

Audits undertaken by this Office are generally of three types: value for money, attest and compliance. All such audits are performed in accordance with generally accepted auditing standards, including those established for value for money auditing. Additionally, section 13 of the Audit Act enables the Provincial Auditor to perform inspection audits of transfer payment recipients. A brief description of each of these categories follows.

Value for Money

Value for money audits, covering various Government and Crown agency programs and activities, are designed to assess components of the management function related to economy, efficiency and procedures to measure effectiveness.

However, the Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility is to assess the extent to which these functions have been carried out by management.

Additionally, the Provincial Auditor is not directly involved in the value for money auditing of transfer payment recipients. Such audits may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies. However, the Provincial Auditor may become indirectly involved when assessing the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well-managed.

Attest

The Office conducts attest (financial) audits on the annual financial statements of the Province and numerous Crown agencies. These audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

Compliance

Compliance audit work is generally carried out in conjunction with our value for money and attest auditing. Compliance auditing assesses whether transactions and other aspects of ministry and agency operations are in compliance with legislative and administrative requirements.

Office of the Provincial Auditor

Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of Government expenditures, are payments for which the Province does not directly receive goods or services. The payments may be for specific purposes (such as the funding of school boards and universities), or they may be unconditional (such as per capita grants to municipalities).

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of inspection audits, the audits are not normally value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

Audits of grant recipients may also be carried out by ministry internal auditors.

Scheduling of Audit Activities

Ministry Audits

The Office conducts cyclical audits of major ministry programs with annual expenditures over \$40 million. Such audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. All major programs are considered for audit over a five-year period. In addition to these cyclical audits, smaller programs and activities may also be audited, particularly information systems.

In determining which programs to audit each year, the Office considers such factors as total expenditures, impact of the program on the public, diversity and complexity of operations, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister.

Ministry expenditure systems that are processed centrally are audited on a cross-ministry basis at least once during a five-year period. Ministry financial systems that are not centralized are audited on a ministry-by-ministry basis, as are the major revenue activities across Government.

Agency Audits

Agency of the Crown audits are conducted on an annual basis as required by legislation. While uneconomical practices or inefficiencies may be identified during regular attest/compliance audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

Ministry and Agency Reports

5.5 Ministry and Agency Reports

Reporting Process

At the conclusion of each audit, a draft report is discussed with senior ministry/agency officials and, where necessary, revised to reflect matters raised in the discussion. A final report is issued to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. In all cases, a copy of the final report is sent to the Secretary of the Management Board of Cabinet. If requested by the ministry or agency, the Office will clarify or provide further information on any aspects of the final report.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

5.6 Additional Reporting Matters

Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Audit Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (September 1989 to August 1990) covered by this Report, the Office was involved with three special assignments.

At the request of the Minister of Tourism and Recreation, the Office undertook an in-depth review of the decision-making processes at Ontario Place Corporation including, in particular, a review of the Board of Directors' responsibilities and inputs regarding purchasing processes and contract management, decision-making authorities, and overall accountability related to the management of the Corporation's operations. We reported to the Minister in the fall of 1989.

The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the process used to award a Ministry of Housing contract to a particular consultant. We reported to the Committee and in March 1990 the Committee presented their report to the Legislature.

Additionally, at the request of the Committee, the Office undertook an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." We reported to the Committee in the fall of 1990.

5.7 Annual Report

Reporting Process

Under section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations.

Office of the Provincial Auditor

The main body of the Annual Report consists of sections extracted from audit reports on ministries and agencies issued during the period to August 31, 1990. The Report may also include excerpts from reports on special assignments for a Minister, or from the reports to management prepared by the auditors of agencies of the Crown or Crown controlled corporations. The selections are made by senior management using criteria which include: monetary significance; public sensitivity or safety (environment, health care); and quality of administration (economy, efficiency, effectiveness). Also included is information which is perceived to be of interest to the Legislature/public.

The subsequent steps in the the Annual Report process are as follows:

- Selected report items and relevant ministry/agency responses received up to September 14 only (due to printing deadlines) are included in the Annual Report. Responses received after September 14 are forwarded to the Standing Committee on Public Accounts.
- The Committee receives the Report for review after it is tabled in the Assembly in the latter part of the year.
- The Committee then calls upon representatives of the ministries or agencies to discuss selected sections of the Report.

Annual Report Briefing

Each year an Annual Report briefing is held prior to the tabling of the Report. Arrangements are made for three separate and simultaneous lockups: one for members of the Legislature and their research staff, one for representatives of the media, and one for representatives of ministries, agencies of the Crown and central agencies. The lockups conclude with the Provincial Auditor answering the media's questions at a news conference.

5.8 Public Disclosure of Reports

Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

Other Reports

The Office does not submit to the Legislative Assembly or to the Standing Committee on Public Accounts, or otherwise make public, our audit reports on ministries, agencies or special assignments for a Minister, nor do we submit the reports to management which are prepared by the auditors of agencies or Crown controlled corporations. However, the Standing Committee on Public Accounts, or any other committee of the Assembly, may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Office Organization and Personnel

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are tabled.

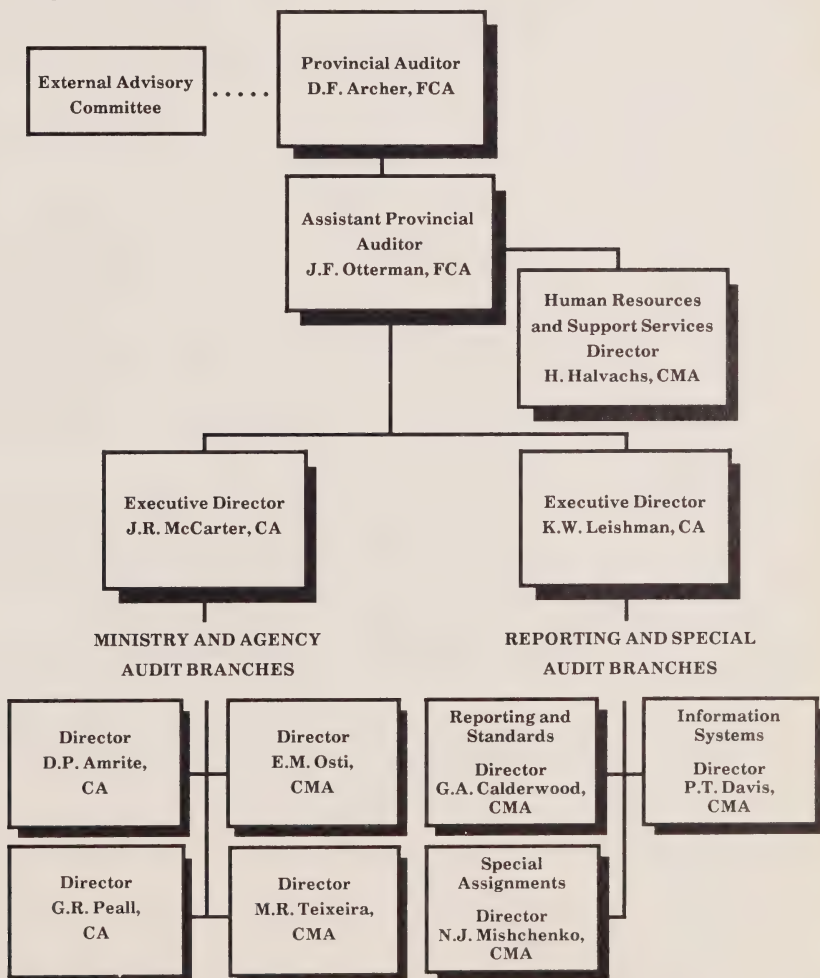
Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

The Office has not been designated as an institution to which the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, apply.

5.9

Office Organization and Personnel

The staff complement of the Office at August 31, 1990 was 115 and the Office was organized as follows:



Office of the Provincial Auditor

Ministry and Agency Audit Branches

These four audit branches are responsible for the cyclical audits of ministries and annual audits of agencies of the Crown.

Reporting and Standards Branch

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

Information Systems Branch

This branch's main responsibilities are information systems audits, including the provision of technical support and training to other branches.

Special Assignments Branch

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

Advisory Committee

The external Advisory Committee's terms of reference include assessment of the Annual Report and other publicly issued reports, periodic review of the Office's audit approach, analysis of the Office profile, and advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee comprises five members, all of whom combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of Government. The members are:

| | |
|------------------|---|
| Rendall Dick : | former Deputy Attorney General and Deputy Treasurer of Ontario; |
| Patrick Reid : | former Labour/Liberal MPP; past Chairman of the Public Accounts Committee; |
| Jack Stokes : | former New Democratic MPP and Speaker of the Legislative Assembly; |
| George Taylor : | former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario; |
| Adam Zimmerman : | Chairman, MacMillan Bloedel; Chairman and Chief Executive Officer, Noranda Forest Inc. |

Office Expenditure

5.10

Office Expenditure

The following is the 1990 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
 year ended March 31, 1990

| | 1990 | | 1989 | |
|---|------------------|------------------|------------------|------------------|
| | Actual \$ | Estimates \$ | Actual \$ | Estimates \$ |
| Salaries and wages | 4,565,374 | 5,367,200 | 4,318,294 | 4,730,000 |
| Employee benefits | 583,274 | 665,000 | 561,052 | 725,000 |
| Transportation and communication | 251,074 | 277,000 | 240,226 | 233,000 |
| Services | 1,223,118 | 1,112,000 | 1,035,720 | 1,084,000 |
| Supplies and equipment | 120,152 | 116,000 | 123,524 | 105,000 |
| Transfer payment - Canadian Comprehensive Auditing Foundation | <u>48,000</u> | <u>48,000</u> | <u>46,000</u> | <u>46,000</u> |
| | 6,790,992 | 7,585,200 | 6,324,816 | 6,923,000 |
| Provincial Auditor's salary | <u>117,560</u> | <u>95,200</u> | <u>106,602</u> | <u>95,200</u> |
| | <u>6,908,552</u> | <u>7,680,400</u> | <u>6,431,418</u> | <u>7,018,200</u> |

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended.

2. Estimates

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

Office of the Provincial Auditor

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1990. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1990 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
June 19, 1990

ALLEN, MILES, FOX & JOHNSTON
CHARTERED ACCOUNTANTS

5.11

Canadian Conference of Legislative Auditors

The eighteenth annual meeting of the Canadian Conference of Legislative Auditors was held in St. John's from July 8 to 11, 1990. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- . performance reporting by governments;
- . audit of transfer payment recipients;
- . audit planning processes; and
- . special projects conducted on behalf of Public Accounts Committees.

CHAPTER

6THE STANDING COMMITTEE
ON PUBLIC ACCOUNTS

CHAPTER 6

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

6.1

Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on May 8, 1989. The activities of the Committee ended with the dissolution of the Thirty-fourth Parliament on July 30, 1990. At dissolution the membership of the Committee was as follows:

Edward Philip, Chairman, New Democrat
 Gilles Pouliot, Vice-Chairman, New Democrat
 Peter Adams, Liberal
 William Ballinger, Liberal
 Joseph Cordiano, Liberal
 W. Donald Cousens, Progressive Conservative
 Alvin Curling, Liberal
 Laureano Leone, Liberal
 Shelley Martel, New Democrat
 George McCague, Progressive Conservative
 Dianne Poole, Liberal

The Committee will be reconstituted upon commencement of the Thirty-fifth Parliament.

6.2

Role of the Committee

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.

The Standing Committee on Public Accounts

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

6.3 Committee Procedures and Operations

General

The Committee meets on Thursday mornings when the Legislature is in session. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been in session. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

Meetings Held

From September 1989 to July 30, 1990 the Committee held 16 public meetings, which included reviews of various sections of the 1989 Auditor's Report and two follow-up reviews stemming from the Committee's 1988 activity. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature.

Motion Passed at Meeting

Ontario - Share the Vision - Ministry of Industry, Trade and Technology

On November 23, 1989 the Committee passed a motion requesting the Provincial Auditor to conduct an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." The audit terms of reference were to specifically address, but not be limited to, the amount paid for these items, whether the price was competitive with normal market rates, and whether the purchase was in line with normal Ministry practices for the purchase of such services.

Additional Procedures

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- . in-depth briefings and preparation;

Other Committee Activities

- . more frequent reports to the Legislature;
- . increased follow-up of Committee recommendations; and
- . site visits to discuss concerns and obtain firsthand knowledge of everyday working conditions in the field.

6.4 Other Committee Activities

Canadian Council of Public Accounts Committees

The twelfth annual meeting of the Council was held in St. John's, Newfoundland from July 8 to 11, 1990. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

The annual meeting included a discussion of Guidelines for Public Accounts Committees in Canada, and a joint session with the Conference of Legislative Auditors.

6.5 Reports of the Committee

General

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

Completed Reports

The Committee issued three reports and an Annual Report between August 1989 and July 1990. These reports contained recommendations related to the following:

- . Ministry of Housing
 - Process used to award a consulting contract
- . Ministry of Health
 - Committee visits to psychiatric hospitals to assess the deficiencies identified in the 1987 Auditor's Report
- . Government Advertising and Communications Expenditures
 - Regard for economy in acquiring goods and services; project evaluation; and, documentation of agency selection

The Standing Committee on Public Accounts

- . Ministry of the Environment
 - Controls over water and sewage treatment plants
- . Ministry of Natural Resources
 - Committee visits to firefighting facilities re: fire prevention and detection; acquisition of equipment; and, utilization of equipment and staff
- . Ministry of Transportation
 - Utilization of consultants and highway design staff
 - Municipal road subsidies
- . Human Resources Secretariat
 - Administration of position classification and grievance procedures
- . Ministry of Transportation
 - Operations of the Driver and Vehicle Registration Systems
- . Office of the Provincial Auditor
 - The audit of Government agencies and amendments to the Audit Act

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

6.6

Follow-up Report to the Committee

In its review of the collection of taxes on motor fuels and tobacco products, the Committee expressed concern regarding the significant incentive for innovative schemes to evade tax on tobacco products. Accordingly, one of the recommendations in its First 1989 Interim Report to the Legislative Assembly in July 1989 stated that:

The Ministry of Revenue should continue to monitor the sale and consumption of tobacco products generally. The Ministry should report to the Provincial Auditor within a year on the progress made on this subject. The Provincial Auditor will report on this issue in the annual report.

Progress reports from the Ministry and our follow-up discussion with Ministry officials indicated that:

- . Inspection and audit activity is being substantially increased. For example, the Ministry is expanding its audit coverage of tobacco wholesalers to 30 in the 1991 fiscal year, compared to only eight in 1989. Such audits verify that the proper amount of tax has been paid by wholesalers on their purchases from manufacturers/importers.

Follow-up Report to the Committee

- . The three major domestic tobacco manufacturers which account for over 90 per cent of the cigarettes manufactured in Canada are now audited on a three-year cycle. Production, inventory and sales figures for domestic and export markets are examined. The audits verify that tax exempt sales have proper supporting documentation and the amount of tax collected on domestic consumption is reasonable.
- . Ontario tax marking of cigarette packages is being implemented to prevent domestic consumption of tax-free tobacco products designated for export. The marking system should be fully in place (down to the retail level) before December 1990.
- . The Tobacco Tax Amendment Act, 1990, strengthened enforcement provisions by increasing the penalties for violations, and by incorporating new registration and bonding requirements for tobacco importers and exporters.

We are generally satisfied that when the initiatives taken by the Ministry are fully implemented, the sale and consumption of tobacco products will be more closely monitored, resulting in a more effective tax collection system.

EXHIBITS

1. Cross-Ministry and Special Audits.
2. Ministry Audits.
3. Agencies of the Crown, year ended March 31, 1990.
4. Crown Controlled Corporations, year ended March 31, 1990.
5. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1990.
6. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.

EXHIBIT 1

Cross-Ministry and Special Audits

CROSS-MINISTRY AUDITS

- * . Government Collection Procedures and Accounts Receivable Write-Offs
 - Agriculture and Food
 - Attorney General
 - Financial Institutions
 - Government Services - Central Collection Service
 - Industry, Trade and Technology
 - Revenue
- . Government Expenditure Controls
 - Energy
 - Industry, Trade and Technology
 - Natural Resources
 - Solicitor General
 - Transportation
- * . Government Vehicle Fleet Administration
 - Agriculture and Food
 - Community and Social Services
 - Correctional Services
 - Environment
 - Labour
 - Solicitor General
 - Transportation

SPECIAL AUDITS

Reviews for the Standing Committee on Public Accounts

- . Consulting contract at the Ministry of Housing

Review for Minister of the Crown

- . Tourism and Recreation - Ontario Place Corporation

Inspection Audits

- * . Centenary Hospital, Ministry of Health
- * . Lakehead Board of Education, Ministry of Education
- * . University of Toronto, Ministry of Colleges and Universities
- * . York Region Roman Catholic Separate School Board, Ministry of Education

*These matters appear in Chapter 2 of this Report.

EXHIBIT 2

Ministry Audits

- Community and Social Services*
 - * . Adults' Social Services Activity
 - Homes for the Aged
 - * . Developmental Services (Adults and Children) Activity
- Correctional Services*
 - * . Information Systems Activity, EDP Audit
- Education*
 - * . Provincial Support for Elementary and Secondary Education Activity
- Government Services*
 - * . Computer and Telecommunication Services Program, Toronto Development Centre
 - Information Systems Activity, EDP Audit
 - * . Capital Expenditures Activity
 - Acquisition/Construction of Physical Assets
- Health*
 - * . Community Health Services Activity
 - Home Care Assistance
 - * . Health Insurance and Benefits Activity
 - Provider Services Branch
 - * . Information and Systems Division
 - * . Nursing Home Services Activity
- Intergovernmental Affairs*
 - * . Administration and Intergovernmental Relations Programs
- Natural Resources*
 - . Information Systems Activity, EDP Audit
- Solicitor General*
 - * . Ontario Provincial Police Activity

*These matters appear in Chapter 3 of this Report.

EXHIBIT 3

Agencies of the Crown
year ended March 31, 1990

(i) *Agencies whose accounts are audited by the Provincial Auditor.*

- * Accountant of the Supreme Court of Ontario, The
- Agricultural Rehabilitation and Development Directorate of Ontario
- Alcoholism and Drug Addiction Research Foundation
- * Algonquin Forestry Authority
- Centennial Centre of Science and Technology, The
- Commission on Election Finances
- * Crop Insurance Commission of Ontario, The
- * Eastern Ontario Development Corporation
- Egg Fund Board (December 31)
- Election Act, 1984, The, - Election Fees and Expenses
- Environmental Compensation Corporation
- * Farm Income Stabilization Commission of Ontario
- Fund for Milk and Cream Producers, The, -
- The Ontario Farm Products Marketing Commission
- Grain Financial Protection Board
- IDEA Information Technology Fund Inc.
- IDEA Innovation Fund Inc.
- IDEA Research Investment Fund Inc.
- * Innovation Ontario Corporation
- Legal Aid Fund, Law Society of Upper Canada, The
- * Liquor Control Board of Ontario
- Liquor Licence Board of Ontario
- Live Stock Financial Protection Board, The
- * Niagara Parks Commission, The (October 31)
- North Pickering Development Corporation
- * Northern Ontario Development Corporation
- Northern Ontario Heritage Fund Corporation
- Office of the Assembly
- Office of the Information and Privacy Commissioner
- Office of the Official Guardian
- Office of the Ombudsman
- Ontario Agricultural Museum
- Ontario Cancer Treatment and Research Foundation, The
- * Ontario Development Corporation
- Ontario Educational Communications Authority, The
- Ontario Film Development Corporation, The
- Ontario Food Terminal Board
- Ontario Heritage Foundation, The
- * Ontario Housing Corporation (December 31)
- Ontario Industrial Training Institute
- * Ontario International Corporation
- * Ontario Junior Farmer Establishment Loan Corporation, The
- * Ontario Lottery Corporation
- * Ontario Mortgage Corporation
- * Ontario Municipal Improvement Corporation, The
- * Ontario Northland Transportation Commission (December 31)
- * Ontario Place Corporation
- Ontario Racing Commission

Exhibit 3

-
- Ontario Stock Yards Board (June 30)
 - Ontario Telephone Development Corporation, The
 - Ontario Training Corporation
 - * Ontario Waste Management Corporation
 - Pension Commission of Ontario
 - Potato Financial Protection Board
 - Processing-Vegetable Financial Protection Board
 - Province of Ontario Council for the Arts
 - * Provincial Judges Benefits Fund
 - Public Complaints Commissioner
 - * Public Service Superannuation Fund
 - * Public Trustee of the Province of Ontario, The
 - Rent Review Hearings Board
 - Soldiers' Aid Commission
 - St. Clair Parkway Commission, The (December 31)
 - * Superannuation Adjustment Fund
 - Tobacco Producers' Assistance Fund

(ii) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.

- Board of Community Mental Health Clinic, Guelph
- Clarke Institute of Psychiatry
- Ontario Cancer Institute, The
- Ontario Mental Health Foundation
- St. Lawrence Parks Commission, The
- * Teachers' Superannuation Fund (December 31)
- * Toronto Area Transit Operating Authority
- * Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

- * Audited financial statements reproduced in 1989-90 Public Accounts, the majority appearing in Volume 2.

EXHIBIT 4

**Crown Controlled
Corporations**
year ended March 31, 1990

*Corporations whose accounts are audited by an auditor other than the
Provincial Auditor, with full access by the Provincial Auditor to audit reports,
working papers and other related documents.*

- Board of Funeral Services
- Board of Governors of The Ontario Institute for Studies
in Education, The
- Board of Ophthalmic Dispensers
- Board of Radiological Technicians
- Corporation of the Improvement District of Cameron
- Corporation of the Improvement District of Gauthier
- Corporation of the Improvement District of Kingsford
- Corporation of the Improvement District of Matachewan
- Governing Board of Dental Technicians
- Governing Board of Denture Therapists
- McMichael Canadian Art Collection
- Metropolitan Toronto Convention Centre Corporation
- Moosonee Development Area Board
- Ontario Board of Examiners in Psychology
- * Ontario Centre for Advanced Manufacturing
- * Ontario Centre for Resource Machinery Technology
- Ontario Cream Producers' Marketing Board
- * Ontario Energy Corporation
- Ontario Historical Studies Series
- * Ontario Hydro
- Ontario Milk Marketing Board, The
- Ontario Municipal Employees Retirement Board
- Ontario Share and Deposit Insurance Corporation
- Ontario Teachers' Pension Plan Board
- * Ontario Transportation Development Corporation, The
- Ontario Trillium Foundation
- Ortech Corporation
- Ottawa Congress Centre
- Public Service Pension Board
- Royal Ontario Museum, The
- Science North
- * Stadium Corporation of Ontario Limited
- Thunder Bay Ski Jumps Limited
- * Urban Transportation Development Corporation Limited

* Audited financial statements reproduced in 1989-90 Public Accounts, Volume 2.

EXHIBIT 5

Management Board Orders

Amounts Authorized and
Expended Thereunder
year ended March 31, 1990

| Ministry | Date of Order | Authorized | Expended |
|--------------------------------------|---------------|-------------------|-------------------|
| | | \$ | \$ |
| Agriculture and Food | Apr. 3, 1990 | 6,314,900 | 5,892,385 |
| | Apr. 10, 1990 | <u>135,600</u> | <u>98,946</u> |
| | | <u>6,450,500</u> | <u>5,991,331</u> |
| Attorney General | Jan. 9, 1990 | 3,841,300 | 3,423,527 |
| | Mar. 20, 1990 | 1,775,000 | 1,775,000 |
| | Apr. 10, 1990 | <u>12,784,900</u> | <u>11,155,591</u> |
| | | <u>18,401,200</u> | <u>16,354,118</u> |
| Cabinet Office | Apr. 10, 1990 | <u>372,100</u> | <u>318,233</u> |
| Citizenship | Apr. 10, 1990 | <u>836,700</u> | <u>127,900</u> |
| Colleges and Universities | Feb. 13, 1990 | 400,000 | 392,875 |
| | Mar. 20, 1990 | 8,100,000 | 6,374,928 |
| | Apr. 10, 1990 | <u>331,600</u> | <u>23,815</u> |
| | | <u>8,831,600</u> | <u>6,791,618</u> |
| Community and Social Services | Apr. 3, 1990 | 72,160,400 | 71,809,515 |
| | Apr. 10, 1990 | <u>6,088,000</u> | <u>5,541,836</u> |
| | | <u>78,248,400</u> | <u>77,351,351</u> |
| Consumer and Commercial Relations | Feb. 27, 1990 | 4,342,200 | 4,164,531 |
| | Apr. 10, 1990 | <u>469,300</u> | <u>291,843</u> |
| | | <u>4,811,500</u> | <u>4,456,374</u> |
| Correctional Services | Mar. 20, 1990 | 20,713,000 | 20,659,700 |
| | Apr. 10, 1990 | <u>3,495,300</u> | <u>3,007,624</u> |
| | | <u>24,208,300</u> | <u>23,667,324</u> |

Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|---|---------------|--------------------|--------------------|
| | | \$ | \$ |
| Culture and Communications | Apr. 10, 1990 | <u>3,482,000</u> | <u>3,184,355</u> |
| Office Responsible for Disabled Persons | Apr. 3, 1990 | <u>14,000</u> | <u>-</u> |
| Education | Mar. 20, 1990 | 2,709,000 | 2,471,019 |
| | Mar. 27, 1990 | 8,720,000 | 2,179,985 |
| | Apr. 10, 1990 | 1,350,900 | 829,218 |
| | Apr. 24, 1990 | <u>110,500</u> | <u>-</u> |
| | | <u>12,890,400</u> | <u>5,480,222</u> |
| Energy | Apr. 10, 1990 | <u>90,300</u> | <u>-</u> |
| Environment | Mar. 20, 1990 | 3,273,400 | 3,270,837 |
| | Apr. 3, 1990 | 360,000 | 354,572 |
| | Apr. 10, 1990 | <u>6,476,300</u> | <u>5,617,244</u> |
| | | <u>10,109,700</u> | <u>9,242,653</u> |
| Financial Institutions | Feb. 20, 1990 | <u>1,240,400</u> | <u>1,110,898</u> |
| Government Services | Mar. 20, 1990 | 3,697,900 | 3,492,807 |
| | Apr. 10, 1990 | <u>88,600</u> | <u>7,830</u> |
| | | <u>3,786,500</u> | <u>3,500,637</u> |
| Health | Mar. 20, 1990 | 3,297,800 | 3,264,537 |
| | Mar. 27, 1990 | 347,080,800 | 347,032,852 |
| | Apr. 10, 1990 | <u>62,842,500</u> | <u>55,493,221</u> |
| | | <u>413,221,100</u> | <u>405,790,610</u> |
| Housing | Apr. 10, 1990 | <u>9,304,600</u> | <u>7,655,240</u> |
| Industry, Trade and Technology | Mar. 27, 1990 | <u>3,080,400</u> | <u>2,434,695</u> |

Exhibit 5

| Ministry | Date of Order | Authorized | Expended |
|--|---------------|-------------------|-------------------|
| | | \$ | \$ |
| Intergovernmental Affairs | Feb. 6, 1990 | <u>500,000</u> | <u>198,162</u> |
| Labour | Mar. 27, 1990 | 453,400 | 439,367 |
| | Apr. 10, 1990 | <u>2,058,900</u> | <u>1,477,721</u> |
| | | <u>2,512,300</u> | <u>1,917,088</u> |
| Office of the Lieutenant Governor | Mar. 20, 1990 | <u>60,200</u> | <u>51,260</u> |
| Management Board of Cabinet | Apr. 10, 1990 | <u>2,833,900</u> | <u>1,780,536</u> |
| Municipal Affairs | Apr. 10, 1990 | <u>7,284,500</u> | <u>6,312,580</u> |
| Natural Resources | Aug. 1, 1989 | 10,000,000 | 10,000,000 |
| | Nov. 28, 1989 | 4,000,000 | 3,999,799 |
| | Apr. 3, 1990 | 9,022,400 | 8,943,900 |
| | Apr. 10, 1990 | <u>386,100</u> | <u>266,168</u> |
| | | <u>23,408,500</u> | <u>23,209,867</u> |
| Northern Development and Mines | Apr. 10, 1990 | <u>491,400</u> | <u>361,065</u> |
| Revenue | Nov. 14, 1989 | 5,900,000 | 5,900,000 |
| | Mar. 20, 1990 | 10,289,700 | 10,066,770 |
| | Apr. 3, 1990 | <u>391,200</u> | <u>178,766</u> |
| | | <u>16,580,900</u> | <u>16,145,536</u> |
| Office Responsible for Senior Citizens Affairs | Apr. 10, 1990 | <u>33,000</u> | <u>-</u> |

Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|--|---------------|--------------------|--------------------|
| | | \$ | \$ |
| Solicitor General | Dec. 19, 1989 | 600,000 | 589,232 |
| | Feb. 20, 1990 | 2,000,000 | 2,000,000 |
| | Mar. 20, 1990 | 24,040,600 | 23,571,257 |
| | Apr. 3, 1990 | 411,700 | 135,656 |
| | | <u>27,052,300</u> | <u>26,296,145</u> |
| Tourism and Recreation | Apr. 3, 1990 | 3,156,600 | 3,030,516 |
| | Apr. 10, 1990 | 34,400 | 28,631 |
| | | <u>3,191,000</u> | <u>3,059,147</u> |
| Transportation | Jan. 16, 1990 | 575,000 | 575,000 |
| | Jan. 23, 1990 | 13,700,000 | 13,700,000 |
| | Feb. 27, 1990 | 1,330,000 | 1,191,722 |
| | Mar. 27, 1990 | 34,200,000 | 33,116,507 |
| | Apr. 10, 1990 | 1,176,000 | 541,228 |
| | | <u>50,981,000</u> | <u>49,124,457</u> |
| Treasury and Economics | Mar. 6, 1990 | <u>1,339,600</u> | <u>697,487</u> |
| Office Responsible for Women's Issues | Mar. 6, 1990 | 347,200 | 347,200 |
| | Apr. 10, 1990 | 732,300 | 30,445 |
| | | <u>1,079,500</u> | <u>377,645</u> |
| Total Management Board Orders | | <u>736,727,800</u> | <u>702,988,534</u> |

EXHIBIT 6

**Status of Suggested Corrective
Action and Recommendations
Contained in Previous
Annual Reports**

(See Note)

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|---|----------------|--|
| <u>RESOLVED AS AT DATE OF PREPARATION OF 1990 AUDITOR'S REPORT</u> | | |
| <i>GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS</i> | | |
| 1988 | 2.4 | Observations on government advertising and communications expenditures. - In process of implementation. |
| <i>MINISTRIES</i> | | |
| Community and Social Services | | |
| 1988 | 3.3 | Unsatisfactory monitoring procedures, General Welfare Assistance Program. - In process of implementation. |
| Culture and Communications | | |
| 1988 | 3.5 | Better monitoring required, Community Facilities Improvement Program. - In process of implementation. |
| Environment | | |
| 1988 | 3.7 | Weak controls over water and sewage treatment plants. - In process of implementation. |
| Health | | |
| 1987 | 4.8 | Weak procedures and controls, Health Insurance Program. - In process of implementation. |
| 1988 | 3.9 | Concerns over hospital funding and performance monitoring. - Partially implemented. |
| Human Resources Secretariat | | |
| 1989 | 3.10 | Classification system poorly maintained. - In process of implementation. |

Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|--------------------------|----------------|---|
| Municipal Affairs | | |
| 1988 | 3.10 | Inflexible allocation formulae warrant reassessment, Unconditional Grants. - Substantially implemented. |
| Natural Resources | | |
| 1988 | 3.11 | Improved cost controls and resources monitoring required, Forest Firefighting. - In process of implementation. |
| Transportation | | |
| 1988 | 3.13 | Improved efficiency required, Design Activity. - In process of implementation. |
| 1988 | 3.14 | Opportunities for cost reductions, Municipal Roads Program. - In process of implementation. |

CROWN AGENCIES

Alcoholism and Drug Addiction Research Foundation

| | | |
|------|------|---|
| 1989 | 3.15 | Significant deficiencies in consulting arrangement. - Substantially implemented. |
|------|------|---|

The McMichael Canadian Collection

| | | |
|------|-----|---|
| 1988 | 4.3 | Acquisitions, safeguards and other matters. - Implemented. |
|------|-----|---|

Ontario Northland Transportation Commission

| | | |
|------|-----|---|
| 1988 | 4.5 | Potential for cost savings. - Substantially implemented. |
|------|-----|---|

TO BE REVIEWED IN SUBSEQUENT YEARS*

GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

| | | |
|------|-----|---|
| 1989 | 2.5 | Purchasing of government consulting services. |
| 1989 | 2.6 | Government overtime payments. |
| 1989 | 2.7 | Government travel expenditures. |

Exhibit 6

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|--------------------------------------|----------------|---|
| <i>MINISTRIES</i> | | |
| Attorney General | | |
| 1989 | 3.2 | Poor utilization and monitoring of district courtrooms and staff. |
| Community and Social Services | | |
| 1989 | 3.3 | Inadequate monitoring of child care payments, Children's Services Activity. |
| 1989 | 3.4 | Matters of concern, Children's Aid Societies. |
| Correctional Services | | |
| 1989 | 3.5 | Impediments to probation enforcement and effective rehabilitation, Community Services Activity. |
| 1989 | 3.6 | Parole decisions reasonably effective, Ontario Board of Parole. |
| Government Services | | |
| 1989 | 3.7 | Improved practices required, management of leased accommodation. |
| 1989 | 3.8 | Repair procedures not followed and services not acquired economically. |
| Health | | |
| 1989 | 3.9 | Deficiencies in funding and monitoring of operations, Land Ambulance Services. |
| Natural Resources | | |
| 1989 | 3.11 | Better controls and enforcement required, Fisheries and Wildlife Management Activities. |
| Revenue | | |
| 1989 | 3.12 | Observations on audit and revenue control systems, Retail Sales Tax Branch. |
| Transportation | | |
| 1989 | 3.13 | Deficiencies noted in Driver and Vehicle Registration Systems. |
| 1989 | 3.14 | Opportunities for improvement - Examination, Inspection and Enforcement Activity. |

Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|---------------|----------------|--|
| | | <i>CROWN AGENCIES</i> |
| | | The Royal Ontario Museum |
| 1988 | 4.7 | Improved controls and data security recommended. |

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 6 of the 1989 Auditor's Report.
- (b) contained in the body of the 1989 Auditor's Report.

* The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.

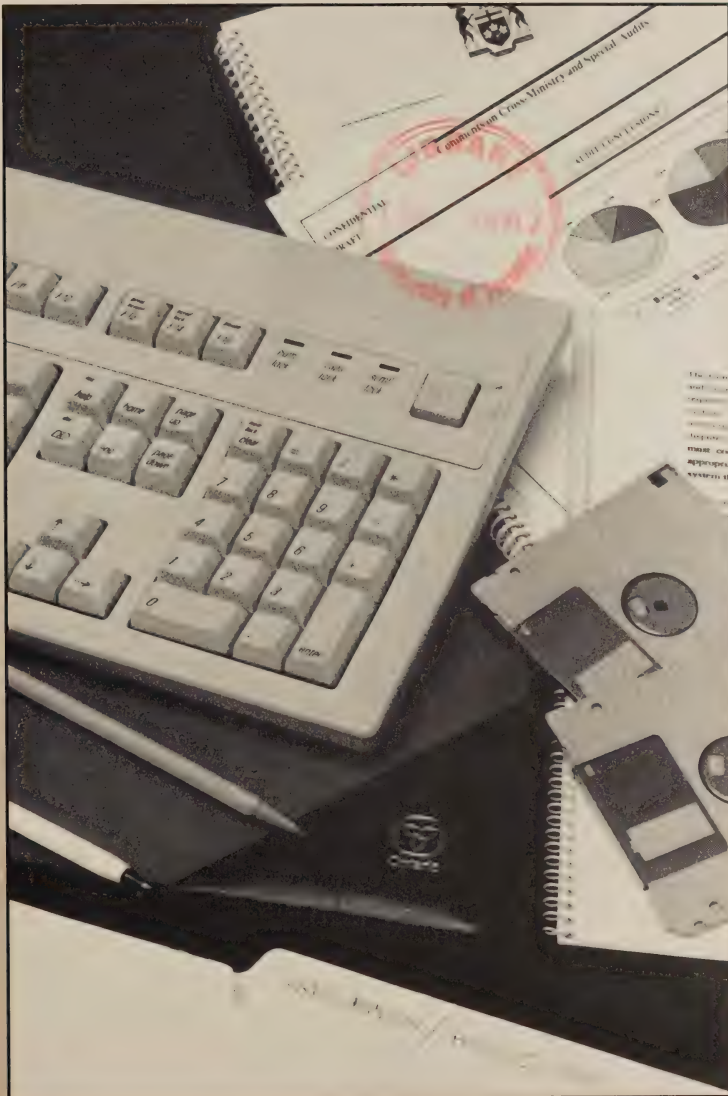


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OFFICE OF THE PROVINCIAL AUDITOR

1991 ANNUAL REPORT





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**OFFICE OF THE PROVINCIAL AUDITOR
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THE HONOURABLE
DAVID WARNER, M.P.P.

Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report covering audits completed through August 31, 1991, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

A handwritten signature in cursive script, reading 'D.F. Archer'.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 26, 1991.



Copies available at \$4.00 from the Ontario Government Bookstore, 880 Bay Street, Toronto or by writing to Publications Ontario, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8. Telephone 326-5300. Toll free long distance 1-800-668-9938.

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ISSN 0843-4050



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CHAPTER

1

MATTERS OF SPECIAL INTEREST





CHAPTER 1

MATTERS OF SPECIAL INTEREST

1.1 Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1991 totalled \$43.4 billion and \$46.5 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of Government preclude an audit of all operations on an annual basis. Accordingly, each year, the Office audits a selection of programs and systems so that over a five-year period management's administration of all major operations is considered for review. This year, we audited 16 major programs/activities in 10 different ministries, primarily for value for money. As well, inspection audits of transfer payments to two public hospitals and six school boards were completed. Additionally, we carried out four cross-ministry audits: mainframe computers, microcomputers, minicomputers and the payments system for goods and services.

A special review for the Standing Committee on Public Accounts was also completed.

The Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Government policies or policy development are not subject to audit. (Section 5.3)

1.2 Overall Assessment

As explained in the succeeding section, we attempt to assess the quality of administration in each of the many government functions we audit. While these individual assessments are beneficial, we recognized they would be even more useful if they could be aggregated in some way. Accordingly, we began including in our Annual Report a summary assessment of all the functions audited during the relevant year.

This higher level information, however, still did not address the ultimate question "how well is government being administered overall?" Commencing in 1988 we began to provide an assessment at that level.

This step required considerable deliberation. Government programs and activities are audited on a cyclical basis, as outlined in section 1.1, rather than each year. Consequently, we did not have the usual audit evidence on which to base an overall assessment. Nevertheless, we were not without conviction in the matter.

Our conviction was based partly on the audit results of recent years. But it also took into account intangible factors as well, for example, our belief that long audit association has provided us with a good understanding of the nature of government and its operating environment. We also believe that professional training and years of experience enable us to recognize and appreciate good management practices.

When factors such as these were collectively considered, it was our opinion, and we so reported, that the Government of Ontario was being satisfactorily administered overall.



Matters of Special Interest

1.2 cont'd

We remain of the same opinion today.

We are pleased to report that, during our audits, we received all the information and explanations required. We acknowledge and thank all those from whom we received assistance.

1.3

Basis of Reporting

This Report is provided in accordance with Section 12(2) of the *Audit Act* which requires the Provincial Auditor to bring observations of significant deficiencies in Government administration to the attention of the Legislative Assembly.

To provide better support to the Assembly in its role of holding the Government accountable, we attempt to go beyond this basic requirement by assessing, where possible, how well a particular government function is being administered, and to support that assessment with specific observations and comments. This enables us to report observed matters within the context of a conclusion regarding the overall quality of administration in the audited activities.

There is a perception that in pursuing our mandate we place too little emphasis on the many areas where no significant deficiencies have been observed. That is, to some extent, an unavoidable consequence of our reporting responsibilities. However, we endeavour to report our findings in the proper context, and frequently draw attention to positive examples of government administration.

The Annual Report contains the most significant results of our examinations of selected ministries and agencies. Our choice is based not only on the significance of the dollar value involved, but also on the importance of a particular matter or issue to the Legislature. Some informational comments are also included in this Report because we believe that they should be drawn to the attention of the Assembly.

1.4

Audit Conclusions

As explained in Section 1.3, in most audits we endeavour to assess how well a particular Government function is being administered. Our assessments take the form of conclusions on specific audit objectives.

Each conclusion is based on an examination of audit results (i.e. the evidence gathered) against criteria relevant to the particular objective. Criteria are discussed with management of the function being audited, and may be defined as reasonable and attainable standards of performance and control.

The importance of professional judgement in legislative auditing must be stressed. Assessment of administrative matters is not an exact science.

We have developed five categories for our audit conclusions — Excellent, More than Satisfactory, Satisfactory, Less than Satisfactory, and Unsatisfactory. Most of our conclusions fall into one of the three middle categories.



Report Synopsis

1.4 cont'd

These categories may be viewed by some as imprecise or open to interpretation. To assist readers in this regard we have attempted to assign a numerical range to the five categories of conclusions. The following may serve as a useful guideline:

| <u>Category</u> | <u>Range</u> |
|------------------------|--------------|
| Excellent | 85-100 |
| More than satisfactory | 70-85 |
| Satisfactory | 60-70 |
| Less than satisfactory | 45-60 |
| Unsatisfactory | 0-45 |

In arriving at our conclusions we do not profess to be infallible. We do, however, profess to be competent, independent and objective. Accordingly, we are fully confident in our minds that the conclusions reached are valid.

1.5

Report Synopsis

Introduction

The purpose of this section is to provide readers with an overview of the comments in Chapters Two and Three. The summaries are very brief, and readers are encouraged to refer to the complete text as indicated by the section references.

Update on Accountability for Transfer Payments

Over the next three fiscal years, ministry internal audit branches are to audit transfer payment accountability frameworks for compliance with Management Board Secretariat's Directive, and ministries are to report annually to the Secretariat on these audits.

Through our regular ministry audit activities and contacts with the Management Board Secretariat we will continue to review progress being made in enhancing transfer payment accountability.

Our Office has reviewed and reported on accountability frameworks for school boards (1990 Annual Report, Section 3.6) and hospitals (Section 3.6 of this report). (Section 2.2)

Ontario's Deficit

The purpose of this year's section is to provide an informational update on Section 2.4 of last year's Annual Report.

Arguments are presented for and against the advisability of governments accumulating deficits. Ontario's recent and projected deficit experience is outlined. (Section 2.3)



Matters of Special Interest

1.5 cont'd

Cross-Ministry Audits

We audited the administration of the government payments system and computer systems across several ministries.

Government Payments System for Goods and Services

We found that controls over payments were satisfactory, and the system was operating in accordance with policies and procedures. However, there was less than satisfactory protection of payment programs and data. (Section 2.4)

Government Microcomputers

Microcomputer hardware was satisfactorily protected from theft, but information stored on microcomputers was vulnerable to loss, misuse or destruction. The acquisition of microcomputers was satisfactorily managed. (Section 2.5)

Government Minicomputers

Security controls over data on government minicomputers were less than satisfactory. (Section 2.6)

Government Mainframe Computers

Security over data on mainframe computers was more than satisfactory at one government computer centre, but unsatisfactory at four others. (Section 2.7)

Inspection Audits

In 1991 we conducted inspection audits of two hospitals and six school boards.

Toronto General Division, The Toronto Hospital

We could not draw conclusions regarding the acquisition of goods and services due to a lack of documentation. Controls over drug and equipment inventories were satisfactory. (Section 2.8)

Toronto East General Hospital

Accounting records and procedures for non-payroll expenditures were satisfactory, but improvements were required in the documentation of acquisition decisions. (Section 2.9)

School Boards

Controls over purchases were satisfactory at most of the six boards audited, but controls over the acquisition of student transportation were less than satisfactory. Opportunities to reduce transportation costs were noted at all boards. (Section 2.10)



Report Synopsis

1.5 cont'd

Trends in Staffing Levels in Ontario School Boards

Professional staff levels in school boards have increased at almost twice the rate of enrolment growth. No conclusive evidence is as yet available to indicate whether lower pupil-teacher ratios have improved the quality of education. (Section 2.11)

Ministry Audits

Livestock and Dairy Inspection; Agriculture and Food

The livestock inspection process was less than satisfactory in assuring food quality and safety, but the dairy inspection process was satisfactory. (Section 3.2)

Surrey Place Centre; Community and Social Services

The Ministry had not adequately monitored the Centre's expenditure of funds. (Section 3.3)

Waste Management Monitoring and Funding; Environment

Efforts to monitor the generation and disposal of hazardous and liquid industrial wastes were less than satisfactory. (Section 3.4)

Deposit Institutions Division; Financial Institutions

Monitoring of credit unions to ensure compliance with legislation was satisfactory, but monitoring of mortgage brokers was less than satisfactory. (Section 3.5)

Institutional Health Program; Health

The Ministry's accountability framework for hospitals could not be implemented without changes to the *Public Hospitals Act*. The Ministry's monitoring of hospital operations was less than satisfactory. (Section 3.6)

Ontario Drug Benefit Plan; Health

Efforts in minimizing the cost of drug benefits were satisfactory, although there was scope for further savings. The post-payment inspection process was less than satisfactory. (Section 3.7)

Industrial Assistance; Industry, Trade and Technology

The process of evaluating projects for financial assistance was unsatisfactory and the monitoring of projects for compliance with the terms and conditions of their agreements was less than satisfactory. (Section 3.8)



Matters of Special Interest

1.5 cont'd

Construction Health and Safety Activities; Labour Employment Standards Branch; Labour

The systems for measuring and reporting on program effectiveness were unsatisfactory. Resources were not utilized efficiently. (Sections 3.9 and 3.10)

Effectiveness Measures; Ontario Women's Directorate

Initiatives were delivered satisfactorily according to plan and within budget, but systems to measure and report on the effectiveness of certain initiatives were less than satisfactory. (Section 3.11)

Sports and Fitness and Recreation Grants; Tourism and Recreation

Grants were generally provided for eligible purposes in accordance with policies and procedures. However, there was inadequate information available to determine whether sports and fitness grants were used as intended. (Section 3.12)

Municipal Transit Program; Transportation

Controls over payments at the three audited municipal transit organizations were satisfactory, and the terms and conditions of subsidies provided to municipalities were complied with. (Section 3.13)

Crown Agency Audits

Monitoring of Employee Expenses; Liquor Control Board of Ontario

Numerous payments for ineligible and questionable employee expenses were made, and more improvement is needed in the management of vehicles. (Section 3.14)

Management of Government-Owned Housing; Ontario Housing Corporation

Management information and reporting systems were less than satisfactory. We found that rents geared to income were properly calculated and collected on a timely basis. The effectiveness of policies and agreements for placing tenants was questioned. (Section 3.15)

Hazardous Waste Treatment Facility and Other Matters; Ontario Waste Management Corporation

Subject to the outcome of environmental assessment hearings, the Corporation has calculated start-up dates for its proposed waste treatment and disposal facility ranging from November 1995 to April 1998. Corporation salary ranges were significantly higher than those in the Ontario Public Service. (Section 3.16)



Reacting to Concerns

1.6 Reacting to Concerns

The Office of the Provincial Auditor can be contacted by anyone who has concerns about wasteful or inappropriate use of resources in the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or 1-800-668-8516, by facsimile (416) 324-7012 or by writing to:

Office of the Provincial Auditor,
Box 105, 20 Dundas Street West,
Toronto, Ontario.
M5G 2C2





CHAPTER

2

COMMENTS ON
CROSS-MINISTRY
AND SPECIAL AUDITS





CHAPTER 2

COMMENTS ON CROSS-MINISTRY AND SPECIAL AUDITS

2.1

Introduction

Comments contained in this segment of the Report result principally from cross-ministry and special audits. A list of all audits completed since our last Annual Report is included in Exhibit 1.

2.2

Accountability for Transfer Payments

INTRODUCTION

As the Office's primary goal is to assist the Legislature in holding the Government and its administrators accountable for the stewardship of public funds, we have an ongoing interest in the improvements being effected in transfer payment accountability.

In the 1991 fiscal year, transfer payments of \$34.1 billion accounted for over 73 per cent of Provincial expenditure. However, the Government only has direct control over the approximately one quarter of these payments that are made directly to individuals, or to others such as physicians and pharmacists providing services to the public. As the other three quarters of the funds represent transfer payments to intermediary organizations or bodies providing services to the public, the Government does not directly control their use, safeguarding or expenditure. The major payments in this latter category are operating grants to: hospitals (\$6.4 billion), school boards (\$4.5 billion), universities (\$1.8 billion) and colleges (\$.8 billion).

ACCOUNTABILITY FRAMEWORKS

In 1988 the Management Board Secretariat (the Secretariat) issued a Directive on Transfer Payment Accountability in order to establish an effective framework for transfer payment recipients to account for their management of public funds. The frameworks were to contain the key components of setting expectations (objectives and results), contracting (the understanding between the ministry and the transfer payment recipient), and reporting.

As requested by the Secretariat, all ministries submitted accountability frameworks for each transfer payment program. The Secretariat reviewed the frameworks and in October 1989 obtained Cabinet approval for the frameworks relating to 21 of the largest transfer payment programs. These programs represented approximately 80 per cent of total Provincial transfer payments.

In November 1989 the Secretariat requested ministries to have their internal audit branches, over the next three fiscal years (1991 to 1993), audit all transfer payment accountability frameworks for compliance with the Directive on Transfer Payment Accountability. Subsequently, the Secretariat issued an audit review guide for the Directive.

The Secretariat also requested ministries to report annually whether the Directive on Transfer Payment Accountability had been audited. The first annual reports were due by June 30, 1991 and were to be based on compliance audits of accountability frameworks completed during the period up to March 31, 1991. The reports will



Comments on Cross-Ministry and Special Audits

2.2 cont'd

assist the responsible Deputy Ministers in ensuring that the Directive on Transfer Payment Accountability has been properly implemented. Additionally, the reports will assist in maintaining the currency and effectiveness of the Directive, and provide a better understanding of the overall audit coverage of the Directive.

In their reports, the ministries indicated that approximately one third of the total accountability frameworks had been audited for compliance to the end of the 1991 fiscal year. Some ministries had already completed all their framework audits. No major difficulties in meeting the intent of the Directive on Transfer Payment Accountability were reported.

The Secretariat will discuss the reports with the ministries as well as their progress in auditing the accountability frameworks within the required timeframe. The Secretariat plans to inform the Cabinet of the results of this initiative and will continue to request similar annual reports from the ministries in future years.

In addition to the Management Board initiative, our Office has reviewed and reported on accountability frameworks for school boards (1990 Annual Report, Section 3.6) and hospitals (Section 3.6 of this Report). Also, the Standing Committee on Public Accounts reviewed our 1988, 1989 and 1990 Annual Report sections relating to universities and school boards, and in February 1991 discussed these sections with representatives of the five recipients and two ministries involved. The Committee's *Report No. 1*, 1991 indicated the results of the discussions and the Committee's recommendations on various accountability aspects.

2.3

Ontario's Deficit

INTRODUCTION

In our 1989 and 1990 Annual Reports, we reported on various factors associated with government deficits in general, as well as specific comments related to Ontario's deficit. The purpose of this section is to provide an informational update.

DEFINITION

A government's deficit represents its excess of expenditure over revenue in any given year. A government's accumulated deficit equals the total of annual deficits, less any annual surpluses.

Ontario has had only one surplus in the last 20 years (year ended March 31, 1990). For the year ended March 31, 1991, Ontario's deficit was \$3.0 billion, and its accumulated deficit was \$38.4 billion.

1991 DEFICIT

The 1990 budget, which was tabled on April 24, 1990, forecast a surplus of \$30 million for the year ended March 31, 1991. The actual deficit, as stated, was \$3.029 billion, a variance of \$3.059 billion from budget.



Ontario's Deficit

2.3 cont'd

The major factors contributing to this variance were:

- the extent of the recession, which was obviously not foreseen at the time of the budget;

Total revenues were down by approximately \$1.1 billion due primarily to the influence of the recession on taxation revenues. Excluding special payments, total expenditures were up by approximately \$1 billion, with the increase in social assistance payments the major contributing factor.

- special payments which were not provided for in the budget.

Special payments aggregating \$924 million were made regarding the Ontario Teacher's Pension Fund (\$196 million), Urban Transportation Development Corporation Ltd. (\$407 million) and the Stadium Corporation of Ontario Limited (\$321 million). The nature of these payments is explained in Sections 4.4 and 4.5 of this Report.

Pages 45 to 50 of the 1991 budget, tabled in the Legislature on April 29, 1991 provide a full description of all variances from budget to actual for the year ended March 31, 1991.

EFFECT OF DEFICITS

As covered in our 1989 Report, there are divergent views on the desirability of government deficits and accumulated deficits. For example, those opposed feel that:

- Deficits encourage inflation and higher interest rates.
- Deficits make governments vulnerable in times of recession.
- Deficits mean mortgaging our future.
- Excessive debt drains government resources, preventing the development of new initiatives.

While deficit accumulation has its detractors, there are others who maintain:

- There is no statistical evidence to link government borrowing and deficits with inflation or higher interest rates.
- Deficits are a tool for creating jobs and stimulating the economy.
- Deficits, rather than mortgaging our future, are paying for future benefits.
- Deficits are largely money we owe to ourselves.

There is general agreement, however, on the need for governments to carefully monitor and control any deficit situations. One yardstick, for example, that governments monitor over the longer term, is the growth in the accumulated deficit



Comments on Cross-Ministry and Special Audits

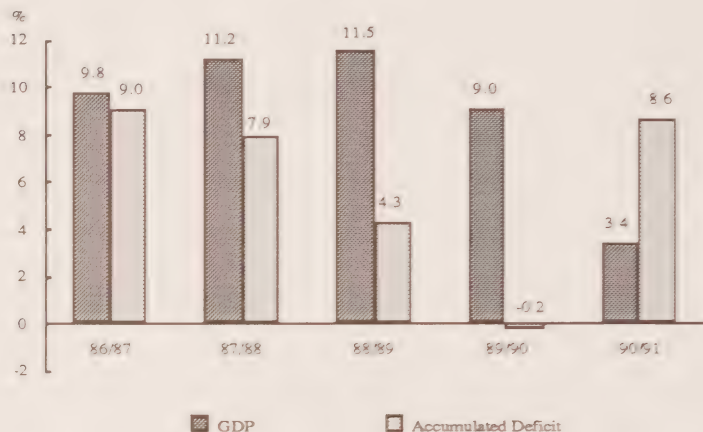
2.3 cont'd

compared to the growth in the economy as measured by the gross domestic product (GDP).

When growth in the accumulated deficit outpaces economic growth, this leads to greater borrowing and, over time, to a higher debt level, requiring an ever increasing percentage of revenues to be earmarked for debt interest. It then becomes more difficult to maintain existing levels of service, meet economic challenges or to introduce new initiatives.

The following graph compares the percentage change in Ontario's GDP to the percentage change in Ontario's accumulated deficit for the past five years.

COMPARATIVE GROWTH
ONTARIO GDP AND ACCUMULATED DEFICIT



As is evident from the graph, economic growth outpaced the growth in the accumulated deficit in each of the four years 1986/87 through 1989/90. However, the converse resulted in 1990/91, and significantly so.

Based on the fiscal projections contained in the 1991 Ontario budget, the converse direction will continue through 1994/95. It is expected to peak in 1991/92 (accumulated deficit growth of 25.3 per cent vs. GDP growth of 0.6 per cent) and to gradually moderate thereafter. The 1994/95 differential in growth rates, accumulated deficit vs. GDP, is expected to approximate that for 1990/91.

As previously noted, a consequence of such a fiscal pattern is increased borrowing and higher debt interest. As a percentage of total revenue debt interest is expected to rise from 9.9 per cent in 1990/91 to 12.3 per cent in 1993/94 and remain at that level in 1994/95.



Government Payments System

2.3 cont'd

CREDIT RATING

Bond rating agencies in Canada and the United States develop bond rating scales for securities issued by various governments. The ratings vary from triple A for highly rated investments to D for investments rated as low quality.

Following the release of the budget, forecasting a \$9.7 billion deficit for the 1992 fiscal year as well as continuing deficits for the 1993, 1994 and 1995 fiscal years, Ontario's ratings were lowered from triple A to double A in most cases. Accordingly, interest rates on issues of Ontario and Ontario Hydro bonds are likely to be marginally higher.

2.4

Observations on the Government Payments System for Goods and Services

Payments for goods and services purchased by the Government are centrally controlled by the Ministries of Treasury and Economics and Government Services. For the 1991 fiscal year, the Province's expenditures for goods and services totalled approximately \$3 billion.

SUMMARY

SCOPE AND OBJECTIVES

In conducting our cross-ministry audit of the government payments system for goods and services, we assessed the adequacy of:

- controls over such payments, including compliance with related Government policies and procedures; and
- protection against unauthorized access to and alteration of payment programs and data.

We audited a representative sample of payments made through the Treasury Payment Control System by ten ministries—Community and Social Services, Consumer and Commercial Relations, Culture and Communications, Environment, Government Services, Health, Natural Resources, Revenue, Solicitor General and Transportation. These ministries accounted for approximately 70 per cent of the \$3 billion in expenditures.

We also audited the centralized recording and payment controls at the Ministries of Treasury and Economics and Government Services.

CONCLUSIONS AND FINDINGS

CONTROLS OVER PAYMENTS

We found that controls were satisfactory and that the system, in all material respects, was operating in accordance with Government policies and procedures.



Comments on Cross-Ministry and Special Audits

2.4 cont'd

PROTECTION OF PAYMENT PROGRAMS AND DATA

Protection of payment programs and data against unauthorized access and alteration was less than satisfactory. We noted that:

- controls were inadequate to ensure only fully tested and authorized changes were made to payment programs; and
- controls over access to payment data were unsatisfactory.

OTHER MATTER

Significant benefits could be realized by standardizing accounts payable systems across ministries.

BACKGROUND

The payment system for goods and services within each ministry is governed by its policies and procedures manual. However, minimal requirements applicable to all ministries are outlined in the Manual of the Office of the Treasury (Treasury Manual).

Invoices for goods and services are received, approved and processed by individual ministries. For most payments, a requisition is forwarded to the Ministry of Treasury and Economics recommending that payments be made.

The Ministry of Government Services is responsible for the actual preparation and distribution of cheques, and the preparation of bank reconciliations for Treasury bank accounts.

COMMENTARY

CONTROLS OVER PAYMENTS

Controls are policies designed to ensure that payments are properly authorized, accurate, timely and are made only after the receipt of goods or services.

We examined these controls and tested to ensure that they were being followed. Although minor weaknesses were noted, **we were satisfied that, in all material respects, the payments system was functioning properly.** This conclusion was similar to that reached in our previous audit in 1987.

PROTECTION OF PAYMENT PROGRAMS AND DATA

Regarding the protection of payment programs and data—our second objective—some weaknesses noted in 1987 still exist. These include inadequate change controls and payment data not being sufficiently protected. Other problems noted in 1987 (possibility of cheques being produced without a payee name and inadequate segregation of duties) have been rectified. However, our current audit disclosed weaknesses regarding unauthorized changes to payment data.



Government Payments System

2.4 cont'd

Inadequate Change Controls

Access to programs used for payment processing should be restricted by the security administrator to an appointed librarian. This librarian should accept only tested and documented changes approved by users for creating new programs to process payments.

At one ministry, approval and testing of program changes were not documented unless programming effort was estimated to be greater than three days. In addition, the programmer instead of the librarian created new payment processing programs from changes.

Changes to computer programs without documentation, testing or approval can result in erroneous processing, fraudulent manipulation of data, or accidental by-passing of a control.

In one instance, a minor change caused errors in cheque production. Information on remittance advices did not match information on the face of the cheques. This error was not discovered until 2,300 cheques had been produced and mailed. An additional 30,000 cheques had to be reproduced at a cost of approximately \$6,000.

At another ministry, inadequate testing of program changes resulted in 287 cheques totalling \$6 million being mailed with incomplete payee names. At the time of our audit, 172 cheques had been cancelled and reissued while 115 cheques were still outstanding. One employee spent almost three weeks identifying and correcting erroneous cheques.

Payment Data Not Sufficiently Protected

Payment data should only be updated or deleted by authorized accounts payable staff within the originating ministry. Programmers should not be allowed to update or delete payment data because of their knowledge of payment file layouts and programs. If given the chance to update or delete data, they could destroy or divert payments from the intended vendor. In addition, "hackers" breaking into the computer pose a threat to unprotected payment data. Once into the computer, a hacker can readily update or delete unprotected data.

We tested security over payment data at ten ministries. Five ministries allowed programmers to update or delete payment data. Furthermore, one ministry allowed most computer users to update or delete their payment data by not protecting it. Unprotected files such as these could be readily accessed by unauthorized external persons using telephone lines.

Weak Processing Controls

The processing of accounts payable transactions by ministries should be controlled to ensure that payment files are not changed without authorization. There should also be controls for timely detection of unauthorized payments.



Comments on Cross-Ministry and Special Audits

2.4 cont'd

At five of the ministries which we examined, programmers were granted update access to payment files. None of these ministries were verifying the centrally-produced payment listings against their original data. Therefore, the ministries would not have detected unauthorized changes on a timely basis.

Although changed payment amounts would have been discovered during monthly reconciliations, changed payee names would not have been revealed until vendors inquired about missing payments. In a situation where payees' names were being changed deliberately, detection could be further delayed if an employee was changing other payments to cover an original infraction.

During our audit, no instances of changed payee names were detected. However, the Province issues approximately 8,000 cheques daily for goods and services totalling over \$10 million. Fraudulently changing even a fraction of these daily payments could result in significant loss to the Province before being detected.

OTHER MATTER

Lack of Standardized Processing across Ministries

There is no standardized system across ministries for processing the Province's accounts payable. The ten ministries reviewed relied on five different accounts payable systems. At the time of our audit, at least three different systems were being installed or considered for replacing current systems. Even with these systems installed, there still would be five different systems in use.

Standardizing a system to process accounts payable could provide the following benefits to the Province:

- A government-wide approach could reduce expenditures. Prior to our audit, each ministry acquiring a different system paid the initial purchase costs for the system, annual maintenance fees, and salaries for system support. Since the Ministry of Government Services had already paid for government-wide usage of one financial system, it would not cost more for additional ministries to use this system. **A standardized system could reduce expenditures through decreased outlay costs, decreased maintenance fees, and fewer systems support staff.**
- A government-wide system could simplify the process. Different technologies, duplicate processing and different systems for storing the same data introduce complexity into the payment processing cycle.
- **Accounts payable information for any one vendor could be produced on a timely basis.** At the time of audit, each ministry had to be contacted to total the amount of purchases from any one vendor. **Government-wide information could provide a basis for negotiating better prices for goods and services.**



Government Payments System

2.4 cont'd RESPONSE

The Deputy Treasurer responded with the following comments:

GENERAL

"In general, we are pleased to note that controls over payments were found to be satisfactory and that the system was found to be operating in accordance with government policies and procedures. We agree that improvements can be made and recognize that ministries need to be reminded of their responsibilities in order to further strengthen controls over the payment process."

PROTECTION OF PAYMENT PROGRAMS AND DATA

Inadequate Change Controls

"Treasury is currently developing a comprehensive security strategy to address the recommendations here and others elsewhere in the report."

Payment Data Not Sufficiently Protected

"Ministries will be reminded to protect their data and to restrict access to live data to staff who require this access in order to carry out their job functions."

Weak Processing Controls

"The comment [that 'ministries would not detect unauthorized changes on a timely basis'] implies that changed payee names could only be detected when vendors inquire about missing payments. A listing of cheques issued, showing the vendor number, name and the payment amount, is sent to ministries daily. Some ministries receive this information on computer files in addition to hard copy. Thus the facility already exists for ministries to check data on cheques issued to their original payment data, and thus detect any unauthorized changes. Ministries will be requested to perform this check on a periodic basis."

OTHER MATTER

Lack of Standardized Processing across Ministries

"A standardized system would facilitate improvements in the payment process such as consolidation of vendor payments, and would result in cost savings for the Province."



Comments on Cross-Ministry and Special Audits

2.5

Management of Government Microcomputers

Government ministries have purchased over 23,000 microcomputers, representing a total investment of over \$100 million for hardware and software. Microcomputers are used to store and process information for a broad range of ministry programs and administrative functions.

SUMMARY

SCOPE AND OBJECTIVES

The audit focused on the security, acquisition and support of microcomputer systems at ten ministries: Agriculture and Food; Attorney General; Colleges and Universities; Community and Social Services; Energy; Housing; Industry, Trade and Technology; Labour; Municipal Affairs; and Solicitor General. These ministries own approximately 45 per cent of the microcomputers in the Government. For the purposes of this audit, a microcomputer was defined as a desktop computer designed for use by one person at a time.

Our objectives were to assess, on a cross-ministry basis, whether:

- microcomputers and data were protected against loss, misuse or destruction;
- acquisitions of microcomputer systems were adequately managed; and
- users of microcomputer systems were provided with adequate training and support.

We visited 62 sites across the Province, examined 438 microcomputers and interviewed 231 microcomputer users. Our sample included small sites, with only one or two microcomputers, medium-sized sites, with dozens of microcomputers, and large sites, with more than a hundred microcomputers.

Computer security studies point out that the primary threat to information systems is from employees who are familiar with the hardware, software and business of the employer, rather than intruders from outside the organization. We therefore limited the scope of our first objective to security risks posed by casual, day-to-day, unauthorized access rather than determined attacks by outsiders.

CONCLUSIONS AND FINDINGS

MICROCOMPUTER SECURITY

Microcomputer hardware was satisfactorily protected from theft, but information stored on microcomputer systems was unsatisfactorily protected and was therefore vulnerable to loss, misuse and destruction. We observed the following deficiencies:

- Microcomputers holding confidential information were not adequately protected against casual access by unauthorized staff at 80 per cent of sites visited.



Government Microcomputers

2.5 cont'd

- Microcomputer data diskettes and the information stored on them were not adequately protected at the majority of the sites visited.
- None of the microcomputers we examined were adequately protected from potentially destructive "viruses."
- Security was inadequate for several microcomputer networks.

MICROCOMPUTER ACQUISITIONS

Overall, microcomputer acquisitions were satisfactorily managed. However:

- Although ministries had policies banning unlicensed copies of commercial software, we found such software at one third of sites visited. This could leave the Government vulnerable to lawsuits for copyright infringement.

MICROCOMPUTER TRAINING AND SUPPORT

Practically all microcomputer users we interviewed reported that they were provided with satisfactory training and support.

OTHER MATTER

Unsatisfactory password security allowed access to other computer systems at one half of the ministries visited.

BACKGROUND

The ten audited ministries had standardized on IBM-compatible microcomputers for their desktop computing needs. They used microcomputers for word processing, telecommunications, spreadsheet and database applications. The acquisition procedures for microcomputer hardware and software are defined by Management Board Directives. Protection requirements are defined by both the *Freedom of Information and Protection of Privacy Act* and Management Board Directives.

Prior to the start of our field work, Management Board Secretariat informed each ministry about the audit. We also notified each site at least 48 hours before each visit. The majority of our site visits lasted half a day. In some cases, we made an effort to examine machines storing information about government employees and the public, but we chose most of the microcomputers examined at random.

COMMENTARY

MICROCOMPUTER SECURITY

Information Not Adequately Protected

Many ministry microcomputers store personal information about employees and the public, the privacy of which is required to be protected from unauthorized disclosure by the *Freedom of Information and Protection of Privacy Act*. They also store confidential Government information.



Comments on Cross-Ministry and Special Audits

2.5 cont'd

Microcomputers held confidential information at 48 of the 62 sites we visited. At about 80 per cent of these sites, this information was not adequately protected against casual access by unauthorized persons.

As examples of information which should have been protected but was not, we found performance appraisals for bargaining unit and management staff, briefing notes for Ministers, credit rating information of members of the public, corporate credit card numbers and expiry dates and corporate long distance calling card numbers. Unauthorized access to such information could result in a variety of types of misuse, such as fraudulent use of credit or calling cards and attendant cost to the public purse.

Staff Unaware of Confidential Information

Staff were generally unaware of the confidential information stored on their microcomputers and diskettes which required protection under the *Freedom of Information and Protection of Privacy Act*.

None of the sites we visited had created an inventory of the information stored on their microcomputer systems and none had categorized the information to determine confidentiality so that applicable controls could be implemented.

At these sites, confidential information stored on paper was locked in a safe or filing cabinet. When the same material was written to a computer disk, we found it was not as well protected.

Information Stored on Diskettes Not Protected

Information stored on diskettes is often the same as information stored on the hard disk of a microcomputer. During our interviews, we asked users if their diskettes were locked up when they were away from their desks. **At nearly 65 per cent of the sites, users told us diskettes were not secured during breaks or lunch or after working hours.**

No Protection from Destructive Programs

An increasing number of potentially destructive computer programs are being created and distributed as either practical jokes or deliberate acts of sabotage aimed at the information stored on computer systems. These computer programs, commonly called "viruses," are spread from machine to machine over computer networks or when software is copied and shared between users.

On some of the machines we examined, virus-detecting software was found, but **we found no evidence of software available to shield microcomputers from these destructive programs.** We also found no evidence of policies or procedures dealing with this growing menace.

We found only one machine which had been disabled by a destructive program, but some of these programs can replicate themselves and expand geometrically over an unlimited number of microcomputers in a short time.



Government Microcomputers

2.5 cont'd

Inadequate Security for Networks

Microcomputers linked together in a network are a particular concern because information from a variety of users is stored on a common microcomputer which is shared by many users. If the common microcomputer or its contents are changed or unavailable, these users could lose their information. It is often necessary to prevent one user from reading, altering or deleting information stored by another.

We checked the protection of thirteen microcomputer networks and judged it inadequate at five locations. At all five locations, anyone with physical access to the common microcomputer could read, alter or delete any of its information. In four locations, we were able to change the password of the system administrator and gain access to the network with no restrictions.

MICROCOMPUTER ACQUISITIONS

Generally, microcomputer hardware and software was acquired in compliance with Management Board Directives and the ministries' purchasing policies and procedures.

Unlicensed Copies of Commercial Software

We considered unlicensed software to be products for which there was no purchase order, proof of purchase, or original diskette and manual. **All ministries which we audited had policies banning unlicensed copies of software but at the time of our audit none had reviewed their microcomputers to ensure compliance with these policies.**

Despite the existence of policies and advance notice of our visits, one third of the sites had unlicensed copies of commercial software. Also, there was evidence that other commercial software not listed in inventory records had been deleted from the hard disks of microcomputers we examined.

An association of software developers has pursued charges against organizations in Canada and the United States for possession of unlicensed software. Penalties for violation of the Canadian *Copyright Act* range from \$25,000 for a summary conviction to \$1 million for an indictable offence, plus up to five years in jail. In addition to the criminal penalties, several civil remedies are open to software developers.

MICROCOMPUTER TRAINING AND SUPPORT

Adequate training and technical support for new users is necessary to maximize the benefits of microcomputers and minimize any negative impact due to the introduction of new technology. We found the ministries had adequately responded to this challenge.

Practically all staff we interviewed reported receiving enough training to do their jobs. They were also satisfied with the technical support



Comments on Cross-Ministry and Special Audits

2.5 cont'd

they were receiving from the systems staff at their respective ministries.

We noted that many common, microcomputer-related requirements of different ministries in the same city or area of the province were being met by duplicate efforts. For example, in most cities several ministries required training and support for identical microcomputer software, but each ministry made arrangements independently.

However, in one area, ministries had established an innovative Inter-Ministry Systems Council which allowed them to avoid duplicating efforts for training, support and maintenance by regularly communicating with each other about common interests.

OTHER MATTER

Passwords Not Protected

At five of the ten ministries audited, we found all the information required to gain access to computer systems over telephone lines, including phone numbers, user names and passwords. These systems included two mainframe computers, three minicomputers and one microcomputer. Some information was pinned to a wall, some was taped to keyboards and some was left on a desk.

Many dial-up computer systems rely on passwords to restrict access. Failure to protect passwords is a serious security breach which could lead to unauthorized disclosure of, or changes to, personal or Government information or to the destruction of that information.

RESPONSE

The Secretary of Management Board of Cabinet responded to our report and attached the comments of the ten audited ministries, which included the corrective action being taken. The Secretary made the following general comments:

"To help ensure that the benefits of the report are maximized, I have provided all deputy ministers with a copy of your report. Ministries were asked to review the findings and conclusions and to take appropriate corrective action, where necessary.

"Management Board directives and guidelines provide an appropriate framework for the proper acquisition, security and support of microcomputer systems. However, the operational responsibility and accountability for the systems clearly rest with the deputy ministers of the various ministries where the systems are located. Virtually all of the findings and conclusions in the audit report concerned operational matters that are the responsibility of deputy ministers. . . ."

"In respect of the applicable Management Board directives and guidelines, the Directive on Security was approved by Management Board and distributed to all ministries in March, 1990. The Manager's Guide, to assist ministries in implementing the directive, was distributed to all ministries in May, 1991.



Government Minicomputers

2.5 cont'd

"The Secretariat has held a number of awareness sessions with the ministries and we are currently developing a training program in support of the Security Directive and Manager's Guide."

The information technology directive referred to above was approved by Management Board of Cabinet on February 27, 1990. It forms part of the ongoing implementation of Management Board's *Strategies for the Management of Information Technology*. Ministries were required to submit action plans for meeting the directive as part of their Information Technology Strategic Plans filed after April 1, 1990.

2.6

Management of Government Minicomputers

Management Board has estimated that over 220 minicomputers are in use in the Government. Management Board has developed Directives on information systems, including minicomputer confidentiality, integrity and availability requirements.

In fiscal 1989/90, ministries alone spent \$19 million on minicomputer hardware and software.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess controls over security of minicomputer systems on a cross-ministry basis. Controls included user access to programs and files, physical control over hardware and sensitive reports, and changes to system software and application programs.

We audited fifteen ministries and agencies with over 70 per cent of the Government's minicomputers: Community and Social Services; Culture and Communications; Education; Environment; Government Services; Health; Labour; Municipal Affairs; Natural Resources; Northern Development and Mines; Tourism and Recreation; Transportation; Treasury and Economics; Liquor Licence Board of Ontario; and Ontario Securities Commission.

For the purposes of this audit, a minicomputer was defined as a medium-sized computer designed to allow multiple users the potential to read, change and delete information. Our audit did not include an examination of controls over minicomputers connected to other computers. Therefore, our opinion does not reflect the positive or negative effects of the network on the minicomputers we reviewed.

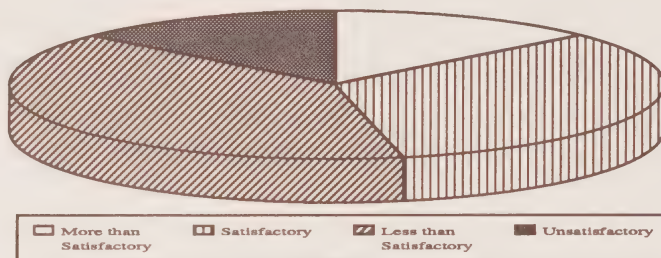


Comments on Cross-Ministry and Special Audits

2.6 cont'd

CONCLUSIONS AND FINDINGS

Overall, the control over security of the minicomputers was less than satisfactory.



We noted the following:

- users could acquire unlimited system privileges at one third of the sites audited;
- computer security policies were lacking at twelve sites;
- change controls over software were inadequate at seven sites;
- security duties were performed on an informal and unscheduled basis at seven sites;
- security administration was inadequate at eight sites;
- passwords were easily guessed at nine sites;
- programmers had excessive authority to update production data at two sites;
- data access rules were insufficiently documented at eight sites; and,
- physical security was satisfactory at all sites.

Only nine of the fifteen minicomputers were used for delivery of government services. At other sites, the minicomputers were used for developing new application systems and had less stringent confidentiality and availability requirements.

Government Minicomputers



2.6 cont'd

BACKGROUND

Our audit reviewed controls over security of minicomputers from two suppliers representing about 75 per cent of the installed government minicomputers.

Ministries and agencies use minicomputers for their mid-range, multi-user computing requirements such as financial, electronic mail, database, word processing, telecommunication and spreadsheet applications. Government employees rely increasingly on these systems for decision-making and administrative support.

Poor security for minicomputers could lead to embarrassment, litigation or financial loss through unauthorized disclosure or modification of programs or information. For example, ministry staff could make erroneous decisions based on bad information from these systems, or could delay decisions with financial implications because the information was not readily available. Also, cabinet or ministry confidential information carried over the electronic mail network could easily be leaked.

To accommodate many persons using one computer simultaneously, minicomputers have security features designed to protect the confidentiality and integrity of stored information and availability of computer resources. Protection requirements for minicomputers are defined by both the *Freedom of Information and Protection of Privacy Act* and Management Board Directive.

COMMENTARY

SECURITY

Systems Vulnerable

Minicomputers by design allow only privileged users, such as the System Manager, to create a new user, change a password or authorize a user to change information.

On four minicomputers, this primary control could be by-passed. Any user could change files regularly run by these privileged users. These changes could then grant similar privileges to the user when the changed file was run by the privileged user. Thirty percent of the users on a fifth minicomputer could accomplish the same thing.

Having gained privilege, a user could easily access any information on the system. This access could lead to violation of an individual's privacy or to unauthorized changes to programs and data. Therefore, files regularly run by privileged users should be protected from general access.

Lack of Security Policies

Computer security policies define acceptable practice or behaviour for administering or using a minicomputer. Without written formal security policies, employees may not be aware of their authorities and responsibilities for the information they administer or use.

At twelve of the sites, no documented security policies for administering or using minicomputer systems were available. Ministry and agency managers should ensure the definition and enforcement of access rights



Comments on Cross-Ministry and Special Audits

2.6 cont'd

that identify, for all data and data processes, the employees who can access the information, the types of access permitted, and the conditions for access. While some ministries were planning or actively creating security policies, at the time of the audit, only three ministries had implemented security policies.

Insufficient Change Controls

Any modifications to the information technology environment—for example, hardware, network or computer program changes—should be carefully managed so that the integrity of data and data processes is maintained. Appropriate controls should be in place for ensuring all changes are authorized, tested and reversible if necessary. The process of introducing and maintaining changes is called 'change control'.

At five sites, change control procedures were inadequate for operating system upgrades. There is a potential for major problems when a new version of an operating system is installed because existing application software may not be compatible with the changes and may suddenly cease to function.

Of nine minicomputers storing ministry application software and data, five had inadequate controls over changes to the ministry software. For instance, there were no rules requiring changes to application software to be tested before accessing critical data, a situation that could lead to corrupt data and inaccurate information.

Software changes should be initiated by the application system owner and reviewed with systems staff for designing and programming of the required changes. Before implementing changes, programs should be fully tested and reviewed by the user who then approves implementing the modification. Good change controls promote the accuracy and reliability of information and reduce the risk of loss due to unauthorized modification or incomplete testing.

Inadequate Segregation of Duties

For minicomputers from one manufacturer, the System Manager is responsible for ensuring the computer functions efficiently and performs the tasks required by management and the users. Conversely, the Security Officer is primarily responsible for granting access to authorized users. When the System Manager is assigned the additional function of Security Officer, the conflicting responsibilities can compromise security.

System Managers for five minicomputers had been assigned the additional function of Security Officer.

At each site, we examined the job specifications and reviewed the duties performed by the person identified as the Security Officer. **At seven of the fifteen sites, the job specifications of the individuals did not mention security duties, which were performed on an informal and unscheduled basis.**



Government Minicomputers

2.6 cont'd

Inadequate Security Administration

When employees leave a ministry, they are no longer authorized to read, change or destroy information, whether on paper or in a computer. Office keys and identity cards are routinely collected to bar former employees from ministry offices, but only one ministry promptly disabled access to the minicomputers of one manufacturer. **Former employees often had computer access over public telephone lines to the other nine minicomputers of that manufacturer.**

These minicomputers can produce security reports, allowing the system operator to monitor attempted and successful access to the minicomputer and critical information. The security reports were available on all the minicomputers, but **at six sites we found no evidence that reports had been formally reviewed.**

Minicomputer users are assigned unique accounts for identification and authorization of their access to data. The accounts, being unique, are also a means of holding the user accountable for their actions when using the minicomputer.

At ten sites, users could share accounts. Programmers shared an account as did data entry clerks and their managers at one site. At the other nine sites, at least one account and its corresponding password were shared by multiple users. In such cases, unauthorized use or damage of programs and data could not be attributed to a specific person.

Poor Password Management

Password protection is a primary control to restrict access to a minicomputer. Authorized users must identify themselves with a name assigned to them and a corresponding password. Users are responsible for choosing and periodically changing their passwords.

Because user names are generally known within a ministry, passwords must be kept in strict confidence. All ministries place reliance on some form of password control to prevent unauthorized access, for example over public telephone lines.

Since ministries place reliance on password controls, there must be formal, written standards associated with their use. However, documented password standards did not exist at any of the sites visited. Undocumented standards contributed to the following problems.

Users' passwords for minicomputers were compared against a list of commonly-used passwords. **For nine of the minicomputers, at least one in four user passwords were on the list.** Commonly-used passwords could be used by 'hackers' to gain unauthorized access to the minicomputer.

At one site, permissible one-character passwords allowed for both trivial and easily guessable passwords. Also, passwords were not required to be changed at this site, and inactive terminals were not disconnected after a period of inactivity at this site. Minicomputers provide features to prevent such security exposures with little or no administrative cost.



Comments on Cross-Ministry and Special Audits

2.6 cont'd

To gain access, a user must usually enter a user name and its associated password. **Yet, at one site, users entered only a password to access the minicomputer.** The use of the available feature requiring both a user name and password for access would provide better security.

Password standards should be developed and communicated to employees who use minicomputers. Topics such as prohibiting the sharing of accounts, choosing non-trivial passwords, and changing passwords should be included.

Inadequate Data Integrity

A Management Board directive defines data integrity as accurate, complete, authentic and timely data and data processes. To promote data integrity, there should be procedures to:

- ensure adequate segregation of duties between information systems development, processing and support;
- ensure that information and information systems are accessed according to established policies and procedures;
- document and schedule all planned changes to information systems;
- ensure the initiation of only authorized changes;
- ensure that controls are in place to prevent unauthorized changes to information systems; and
- ensure that information processing problems are detected and corrected on a timely basis.

Users should only have access to programs and data needed for their job. For example, programmers need update access to application programs but not to the corresponding data files. Conversely, users do not need update access to application programs. By restricting access, the risk of accidental or deliberate damage to the system, programs and data is reduced.

At eight sites, rules had not been defined to indicate what data employees could access, or the conditions or level of access permitted. Documentation was also lacking for the formal authorization of user access.

At one site, a programmer had access to all data and software on the minicomputer. Programmers at another had update access to financial data. In addition, the site did not have documented evidence to show that programmers or other users had appropriate access.



Government Minicomputers

2.6 cont'd

Physical Security Adequate

At all locations, minicomputers were in physically secure office areas, with access limited to appropriate personnel.

RESPONSES

The Deputy Minister of Management Board of Cabinet responded to our audit report and attached the comments of the fifteen audited ministries and agencies, which included the corrective action being taken.

One Ministry commented on the evolution of minicomputers:

"Minicomputers... were initially purchased and used to process information for small numbers of people, usually to satisfy a local specific information demand... The minis were traditionally much less well protected [than mainframes], since the loss of a mini threatened only local interests and not those of an entire organization.

"Minicomputers started to get bigger and capable of doing more. Therefore, information systems that used to be run on mainframes for an organization were now capable of being put on minis. This, therefore, called for a 'mainframe-like' level of... security approaches. Secondly, minicomputers were able to be networked. This meant that suddenly information could be shared across an entire organization and was no longer merely a local concern."

Management Board: "You note in your report that Management Board has developed directives on information systems, including minicomputer confidentiality, integrity and availability requirements. A Manager's Guide, to assist ministries in implementing the directive on security, was distributed to all ministries in May, 1991. The Secretariat has also developed a two-day training program in support of the directives, and we plan to offer it on a monthly basis throughout 1991/92.

"Based on the findings in your report, I have also issued a memorandum to all deputy ministers stressing the importance of proper information technology security practices."



Comments on Cross-Ministry and Special Audits

2.7

Management of Government Mainframe Computers

The Ministries of Correctional Services, Government Services and Revenue use the Resource Access Control Facility (RACF) security software package to control access to the five government mainframe computer centres operated by these ministries.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess whether management of the RACF security package was effective in controlling access to government information on mainframe computers. RACF has a pervasive impact on the accuracy, completeness, availability and reliability of computer-generated financial data.

For the purposes of this audit, a mainframe computer was defined as a large-sized computer designed to allow multiple users the potential to read, change and delete information.

Mainframe computers are used to store and process information for health, corrections, transportation, and other ministry programs and administrative functions.

CONCLUSIONS AND FINDINGS

We concluded that the management of RACF at the Revenue Computer Centre was more than satisfactory in controlling access to information. Moreover, our findings suggested that data on the Ministry of Revenue (MOR) system was well protected from unauthorized modification, disclosure, or deletion.

However, we concluded that the management of RACF at centres operated by the Ministries of Government Services (MGS) and Correctional Services (MCS) was unsatisfactory.

In summary, we found:

- need for improvement in the protection of powerful programs, which can by-pass normal system controls and can access any program and data file on all the computers;
- excessive numbers of users with privileges to use powerful programs at MCS and MGS sites;
- unsatisfactory controls over passwords and software at the MCS site;
- key system options such as the options for protecting all files and for password encryption not being used at MCS and MGS sites;
- some technical support staff at all sites with the facility to change system parameters and libraries, which could have caused widespread disruption of service;



Government Mainframe Computers

2.7 cont'd

- users at all sites who could change the audit trail information recorded by the system, making it possible to conceal unauthorized activity on the system; and
- numerous users at MCS and MGS sites had unrestricted access to all data and system resources.

In summary, data on systems at MCS and MGS sites were exposed to unauthorized modification, disclosure or deletion. Disclosure of information about individuals could violate Management Board Directives, the *Freedom of Information and Protection of Privacy Act* and, where applicable, the *Health Act*.

BACKGROUND

The audits focused on the management of RACF at the following computer centres:

- Kingston Regional Computing Centre (MGS);
- North Bay Computer Centre (MCS);
- Revenue Computer Centre (MOR);
- Toronto Development Centre (MGS); and
- Toronto Production Centre (MGS).

The MGS data centres house the government payments system, the health insurance system, and the government-wide payroll system, while the MOR data centre houses the system which controls property tax assessment rolls and various tax administration systems. The MCS data centre houses the Offender Management System.

RACF is used by these ministries to control access to government programs and data on their mainframe computers. RACF clears requests from users who wish to access a protected resource, such as a data file or program. RACF is preventive in nature, in that it limits access to certain resources to specific individuals. It also provides an audit trail of these accesses, thus acting additionally as a detective control.

Security on mainframes is necessary for the protection of confidential and corporate government data from unauthorized disclosure and accidental or deliberate destruction or change.



Comments on Cross-Ministry and Special Audits

2.7 cont'd

COMMENTARY

CONTROL OVER AUTHORIZED PROGRAM LIBRARIES

Authorized Program Libraries Inadequately Protected

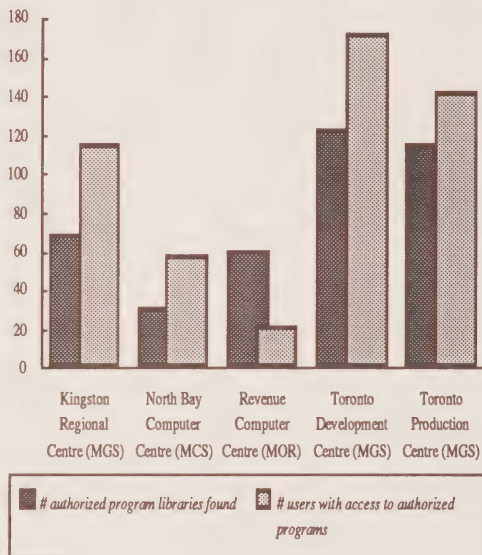
Software vendors have supplied powerful programs, commonly referred to as *authorized programs*, that can access restricted machine instructions and all main memory in the computer as part of system operation and maintenance procedures. These *authorized programs* can by-pass or disable all security mechanisms, and can access and control all programs and data on the system. Therefore, access should be restricted to necessary personnel.

Programs gain authority by virtue of their placement in *authorized program libraries*. A library is an organized collection of computer programs maintained by the operating system and made available to users to reduce the work of programming. Users

at all five sites had the ability to make changes to the *authorized program libraries*, and therefore could have changed any program or data on the system.

Authorized program libraries should be given unique and special protection by RACF and the quantity of *authorized programs* and libraries needs to be critically examined. Controlling and monitoring access to many programs is a difficult if not impossible task.

AUTHORIZED PROGRAM LIBRARIES AND USERS WITH ACCESS



Authorized Program Libraries Not Found

Authorized program libraries are listed in the system parameters. Any program in these listed libraries could be authorized to by-pass or disable security mechanisms. At the three MGS sites, approximately 15 per cent of the *authorized program libraries* listed did not actually exist on the system. Therefore, many technical users could have created libraries with the names on the parameter list, which would have allowed them



Government Mainframe Computers

2.7 cont'd

to substitute their programs. Using their substituted programs, these users could then have by-passed security controls and changed any program or data on the system.

Authorization lists should be reviewed, and any obsolete and duplicate library names should be deleted. Authorized program names should be reviewed regularly and deleted as necessary.

CONTROL OVER RACF SOFTWARE

At the Revenue Computer Centre, control over the RACF software and its use was more than satisfactory. In particular, controls over the command used to activate or disable RACF and its password were commendably secure. MGS sites had satisfactorily controlled access to RACF passwords and software.

But at the North Bay MCS site, we found that **the Information Security group does not control the use of the command used to turn off RACF, and that the password for the command has not been changed from the original password.** Unauthorized users could therefore have used the command to turn off RACF. The RACF command should be limited, and the original password should be changed.

We also found at the North Bay MCS site that **there were many technical support personnel with the capability to make unauthorized changes to the RACF database.** These users could have created, removed, and granted any user access to any data. Access to the RACF database should be limited to prevent unauthorized changes.

SYSTEM OPTIONS

At the Revenue Computer Centre, we found that the controls over the RACF options in place were satisfactory. In particular, the RACF option which specifies that users may only create or access RACF-defined files was in effect. As well, the passwords in the RACF security file were encrypted using the Data Encryption Standard.

The use of passwords enables RACF to verify quickly and easily the identity of a user attempting to gain entry to the system. Passwords can be stored in the RACF security file as either masked or encrypted. Masking is a process which hides the meaning of text by shifting or substituting characters. Encryption, on the other hand, is the process of changing readable text into unintelligible text. Encryption provides 'one-way', irretrievable passwords. RACF supports the use of the Data Encryption Standard (DES) to prevent passwords from appearing in clear text. Without the use of DES, anyone with knowledge of the masking process could retrieve users' passwords.

The Revenue Computer Centre was the only government data centre to make use of either system option.



Comments on Cross-Ministry and Special Audits

2.7 cont'd

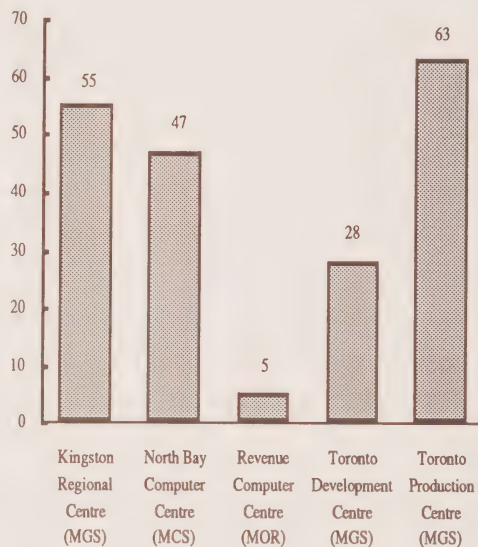
CONTROL OVER ACCESS TO SYSTEM LIBRARIES

Excessive Access to System Parameters

Technical support staff at all five sites had update access to the system parameter library, which is used to specify operating system features, such as the system audit trail options and the list of *authorized programs*. These technical support staff could have substituted their programs for legitimate system programs by changing system parameters.

Also, there were many technical support staff at the MCS and MGS centres with update access to other system libraries containing system programs, the system master catalogue, and installation specifications. Accidental or intentional changes to these libraries could cause widespread disruption of service.

NUMBER OF USERS WITH ACCESS TO SYSTEM PARAMETERS



Access to system libraries should be restricted to necessary personnel.



Government Mainframe Computers

2.7 cont'd

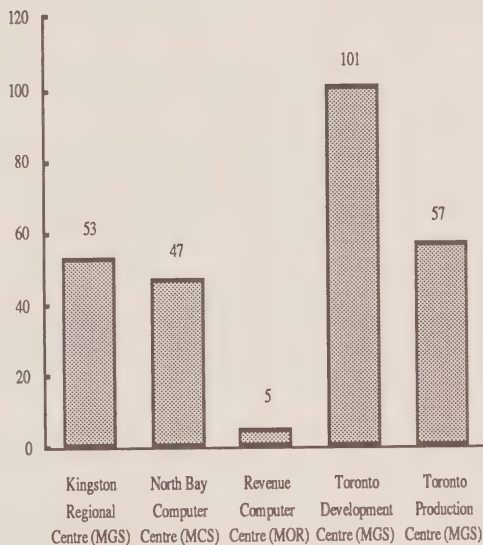
AUDIT TRAILS AND SECURITY REPORTING

Inadequate Controls over Audit Trail Data

Any access to information on the computer is captured by the primary audit trail for the operating system. As seen in this chart, **users at all sites could change the audit trail data recorded by the system.** As well, many users could change the system parameters used for selecting the types of activity recorded in the audit trails.

These capabilities make it possible to delete or change audit trail information and **thus conceal activities on the system.** Of grave concern were the excessive number of users who can also change supplementary system audit trails, such as the hardware and software error log. No one should be granted the ability to change audit trail data.

NUMBER OF USERS WITH ABILITY TO CHANGE
AUDIT TRAIL DATA



CONTROL OVER PASSWORDS

At all sites except the Kingston Regional Computing Centre, the controls over the RACF password options in place were satisfactory.

RACF optionally allows definition of the minimum length of passwords and the type and position of numbers and characters to be used. This option prevents users from selecting passwords such as a single letter or number that are easily guessed.

However, this option was not utilized at MGS' Kingston Regional Computing Centre, and users could select a one-letter password for access to the system. A reasonable minimum password length should be established.

To prevent unauthorized access to the system through repeated attempts, RACF allows definition of the maximum number of invalid access attempts. After this maximum is



Comments on Cross-Ministry and Special Audits

2.7 cont'd

reached, RACF disconnects the user, preventing further attempts to gain access to the system.

The maximum number of access attempts allowed at MGS' Kingston Regional Computing Centre is 15, which is too many. This number should be reduced, as the greater the number of attempts allowed, the greater the possibility of unauthorized access.

EXCESSIVE ACCESS TO POWERFUL PRIVILEGES

There were numerous users at the MGS sites with the SPECIAL attribute that permits unrestricted access to all programs and data, and can allow the user to authorize additional users with any level of access.

There were also numerous users at the MCS and MGS sites with the OPERATIONS attribute that permitted these users to alter, copy or destroy all programs and data.

The assignment of these privileges should be more restricted.

RESPONSE

The Deputy Ministers of Correctional Services, Government Services and Revenue responded to our audit report.

CONTROL OVER AUTHORIZED PROGRAM LIBRARIES

Government Services: *"A detailed review was undertaken of [the Ministry's] authorized program libraries. While access to these libraries had been delegated to those responsible and accountable for ensuring their operational efficiency, the number of... staff with access to these libraries has now been reduced substantially. Auditing options have been activated that monitor all access activity to these libraries, with direct on-line notification to... Information Security. In addition, a process has been put in place whereby... Information Security must give approval for a library to be authorized.*

"Authorization lists have been reviewed and any obsolete and duplicate library and program names have been deleted."

Correctional Services: *"Programs will be globally protected at the library level with more restricted access.*

"There will be an immediate review of the 7,000 authorized programs, and access will be restricted to technical personnel who require it. The technical support librarian will put an audit trail in place to record all update events.

"This will increase our level of security to a level that we feel is appropriate."



Government Mainframe Computers

2.7 cont'd

CONTROL OVER RACF SOFTWARE

Correctional Services: *"It is agreed that the Information Security Group must take over control of the command used to turn off RACF, and the password will be changed. Access to this command will be restricted to necessary technical personnel."*

"Access to the capability to change the RACF data base will be restricted to the Information Security Group and authorized security operators."

SYSTEM OPTIONS

Government Services: *"[We] will implement the encryption standard once client requirements are met through the availability of new job submission software."*

Correctional Services: *"[The] Data Encryption Standard will be used, and the method to ensure that removed data cannot be read will be enabled."*

CONTROL OVER ACCESS TO SYSTEM LIBRARIES

Government Services: *"Update access to system libraries has been reduced substantially. [The Ministry] is implementing enhanced procedures that will further reduce the update access to system libraries. As well, [the Ministry] continues to monitor all activities with immediate on-line notification now being received by... Information Security."*

Revenue: *"Access to system libraries is restricted to five system programmers. We do not believe that this can be reduced given their critical operational and recovery role. No other users have update access to these libraries."*

Correctional Services: *"Access to system libraries will be reviewed. We will reduce the access capabilities of the current 47 technical staff and restrict it to necessary technical personnel only."*

AUDIT TRAILS AND SECURITY REPORTING

Government Services: *"[The Ministry] has examined the controls on its audit trail files and has eliminated update access at all sites. Protection of these files has also been increased with more specific security controls."*

Revenue: *"We do not consider that access by five userids is excessive. Some organizations have one userid connected for maintenance purposes to this file, however, this standing access is often shared by more than one person."*

"Sharing userids is a greater exposure than the controlled and limited access environment we have established for our five userids, as it detracts from the principle of individual ownership and accountability."



Comments on Cross-Ministry and Special Audits

2.7 cont'd

Correctional Services: *"As recommended, Information Security will remove all RACF-controlled capabilities to delete or change audit trail data immediately."*

CONTROL OVER PASSWORDS

Government Services: *"[The Ministry] has obtained agreement from the Ministry of Health to implement a minimum password length... The Ministry of Health has [also] agreed to a reduction of the maximum number of invalid sign-on attempts before further access is automatically denied."*

EXCESSIVE ACCESS TO POWERFUL PRIVILEGES

Government Services: *"Access privileges have been reduced at all three sites and the use of privileges by staff is audited and reviewed daily."*

Correctional Services: *"The OPERATIONS attribute will be removed from all technical services personnel, and will be restricted to necessary personnel in the Data Centre Operations Group. A mechanism for controlled but quick access to the privilege will be provided to the Data Centre supervisor. This will allow rapid response to emergency situations. Immediately after use, the temporary user code will be revoked, and the access passwords will be changed by the Information Security Group."*

2.8

Inspection Audit, The Toronto General Division of The Toronto Hospital, Ministry of Health

In October 1986, the Toronto General Hospital and the Toronto Western Hospital merged to form The Toronto Hospital. The former hospitals were established as divisions of the new hospital. Our audit focused on the Toronto General Division, which is an 870-bed facility offering numerous in-patient and out-patient services.

During the 1990 fiscal year, the hospital had expenditures of \$281 million and revenue of \$267 million. Revenue consisted of \$192 million from the Ministry of Health and \$75 million from other sources.

SUMMARY

SCOPE AND OBJECTIVES

We examined the adequacy of accounting records and related procedures for non-payroll expenditures. Specifically, our examination included the acquisition of goods and services and the inventories of controlled and non-controlled drugs. The audit covered the 1990 fiscal year and the first six months of the 1991 fiscal year.



Inspection Audit, Toronto General Division, The Toronto Hospital

2.8 cont'd

CONCLUSIONS AND FINDINGS

ACQUISITIONS

Due to lack of documentation, we were unable to conclude whether appropriate acquisition procedures had been followed:

- Documentation was not on file at the time of our audit to support acquisition decisions totalling \$4.3 million, including the purchase of laundry services exceeding \$3 million.

In addition, senior management would not provide us with documentation on the selection process for other purchases totalling \$3.2 million. They stated that these items were not funded by the Ministry of Health, and consequently were beyond the scope of our inspection audit. These purchases included the acquisition of computer equipment totalling \$1.2 million.

- Required approvals for purchases totalling \$1.6 million were not on file at the time of our audit.

INVENTORIES

Safeguarding of all drugs was satisfactory as was the record keeping for controlled drugs. However, record keeping for non-controlled drugs was unsatisfactory. Significant differences existed between recorded and actual stock on hand.

Controls over equipment were satisfactory, however there had been no physical verification of easily moveable equipment.

OTHER MATTER

Senior management declined to provide us with information on the savings realized from the merger of the Toronto General Hospital and the Toronto Western Hospital, stating that such information was beyond the scope of our inspection audit. At the time of our audit, Ministry of Health officials were unaware of any formal attempt to quantify savings or to determine whether the merger has, in fact, generated economy.

COMMENTARY

ACQUISITIONS

Acquiring goods and services by competitive practices helps ensure that the best value is received for funds expended, that vendors are treated fairly, and that the firm selected is the best qualified to meet requirements. Accordingly, the hospital's policies require that equipment, medical and surgical supplies and other supplies and services be acquired through a competitive process. Policies allow for the waiver of competition for sole suppliers and preferred suppliers.



Comments on Cross-Ministry and Special Audits

2.8 cont'd

For the 1990 fiscal year, the hospital spent approximately \$93.8 million on equipment, medical and surgical supplies and other supplies and services.

Lack of Documentation to Support Acquisition Decisions

To assess compliance with policies, we selected a representative sample of purchases totalling \$17.9 million. We determined that policies had been followed and decisions documented for purchases totalling \$10.4 million.

However, we were unable to determine whether policies had been followed for 36 purchases totalling \$7.5 million. For 27 of these purchases totalling \$4.3 million, we found:

- one purchase costing \$3.2 million for laundry services from a central laundry corporation established in 1965 by several downtown Toronto hospitals, including the Toronto General Hospital. The 20-year agreement between the hospital and the laundry corporation expired in 1988. However, the hospital continued with the arrangements. **We could find no evidence to indicate that the cost of these services compared favourably with the costs of services available from similar suppliers.**

As a result of our inquiries at the time of the audit, senior management wrote a memorandum to file that compared the rates charged by two similar laundry facilities with the rates of the central laundry. However, we were unable to make any meaningful comparisons from the information provided in the memorandum as the rates were determined on different bases; and

- **twenty-six purchases totalling \$1.1 million for which documentation was not on file at the time of our audit to indicate either the use of competitive practices or the reasons for waiving competition.** Twelve of these purchases, each over \$25,000, totalled \$1 million. Senior management maintained that many of these purchases were made from either preferred vendors or sole suppliers.

For the remaining nine purchases totalling \$3.2 million, senior management would not provide us with documentation on the selection process. One purchase was for computer equipment costing approximately \$1.2 million. Senior management stated that these items were not funded by the Ministry of Health's operating grants and consequently were beyond the scope of our inspection audit. Because the hospital operates with one main bank account, we could not verify that these items had been purchased from non-Ministry funds.

We also found that approvals for purchases totalling \$1.6 million were not on file at the time of our audit. Senior management informed us that approvals had been obtained, but that they had been misplaced during the recent relocation of the purchasing department.

Good business practices require that documentation be kept on file to support acquisition decisions. Furthermore, to ensure that competitive practices



Inspection Audit, Toronto General Division, The Toronto Hospital

2.8 cont'd

are used when possible, the approval of the Board of Directors would be advisable for exceptional situations over an established dollar limit when it is necessary to waive competition. Alternatively, management could periodically provide the Board with information indicating the contracts awarded during a given period and the details of any exceptional situations where competition was waived.

INVENTORIES

Satisfactory Controls over Controlled Drugs and Unsatisfactory Accounting Controls over Non-Controlled Drugs

Hospital Pharmacy

In the 1990 fiscal year, the pharmacy department spent approximately \$15.4 million on drugs—95 per cent for non-controlled drugs such as antibiotics, valium and aspirin, and 5 per cent for controlled drugs such as morphine and codeine. As of March 31, 1990, the pharmacy department had an inventory of approximately \$1.4 million in non-controlled drugs and \$0.1 million in controlled drugs.

We found that access to controlled and non-controlled drugs was restricted to authorized employees, and that the pharmacy department's perpetual records for controlled drugs agreed with the stock on hand. However, at the time of our audit, the perpetual records for non-controlled drugs did not agree with the stock on hand. Differences of over 30 per cent were noted in most of the items examined.

Significant variances should be promptly investigated to minimize potential effects on operations. Senior management maintained that they were aware of discrepancies, and were taking corrective action.

Hospital Units

The pharmacy department supplies the various hospital units such as nursing units, operating rooms and the emergency department with all medications for patient use. Each unit is charged for the costs of drugs issued from the pharmacy.

Of the \$15.4 million of drugs purchased by the hospital during the 1990 fiscal year, approximately \$11.2 million were dispensed by the pharmacy department on a one-day supply and \$1.9 million were distributed to maintain a stock of drugs in the various hospital units (ward stock). This stock is generally replenished three times a week. The remaining purchases of \$2.3 million were dispensed by the pharmacy to out-patients.

Records of drugs received from the pharmacy department and administered to patients are maintained by the hospital units. **However, these records are not periodically reconciled to the stock of non-controlled drugs on hand in the units.** Accordingly, there is a potential for the loss of non-controlled drugs to go undetected.



Comments on Cross-Ministry and Special Audits

2.8 cont'd

Satisfactory Controls over Equipment

At March 31, 1990, the hospital had fixed assets costing \$248.7 million. Of this, \$144.3 million was for land and buildings, and the remaining \$104.4 million was for equipment. Acquisitions of equipment for the 1990 fiscal year were approximately \$10.7 million. The hospital classifies equipment purchases over \$500 as fixed assets.

Hospital procedures require that an equipment record be created for each asset purchased and that identification numbers be affixed to each asset. As well, equipment records are to be updated when equipment is sold, traded, scrapped, or transferred between units.

An equipment record was maintained for acquisitions, and the total cost shown reconciled with the amount in the financial statements at March 31, 1990. Our tests of this record did not indicate any significant discrepancies. However, some items did not have hospital identification numbers, and the hospital had not conducted periodic inventory counts of equipment for many years. As a result, there was a potential for loss of attractive, moveable equipment, or for recording errors to go undetected.

Physical verifications of easily moveable equipment should be performed periodically. As well, the hospital should arrange to identify equipment which is valued at less than \$500, but is particularly portable and attractive.

OTHER MATTER

Merger of the Toronto General Hospital and the Toronto Western Hospital

In October 1986, the Toronto General Hospital and the Toronto Western Hospital merged to form The Toronto Hospital. The former hospitals were established as divisions of the new hospital. Prior to the merger, the total expenditure of the two hospitals in fiscal year 1987 was \$317 million and Ministry of Health funding was \$254 million. For the 1991 fiscal year, expenditure of the merged hospital was \$417 million and Ministry funding was \$333 million, an increase in both of approximately 30 per cent.

Since the merger, several services of the former hospitals have been consolidated. For example, in 1990, cardiac, heart transplants, renal, gynaecology and psychiatric services were consolidated at the Toronto General Division, while neuroscience, trauma and musculo-skeletal services were consolidated at the Toronto Western Division. As well, in 1990 the hospital closed 220 beds permanently, reducing the Ministry of Health's approved complement of both divisions from 1,660 beds to 1,440 beds.

According to hospital policy, savings realized from the merger are to be tracked. We requested this information from the hospital, but **senior management declined to provide it, stating that it was not an accounting record, and was therefore beyond the scope of our inspection audit.**



Inspection Audit, Toronto General Division, The Toronto Hospital

2.8 cont'd

Correspondence on file at the Ministry of Health also indicated that the Ministry expected cost savings to result from the sharing of the "expensive" new patient care information system at the Toronto General Division. The Ministry also anticipated that the merger would result in the reduction of costly duplication and the consolidation of clinical expertise. The then Minister of Health indicated in the Legislative Assembly on October 21, 1986 that the merger would free up millions of dollars for use in providing health care.

Ministry officials currently maintain that the merger has led to overall cost efficiencies because of centralized management, administration and support services, and consolidated purchasing power. **However, at the time of our audit, these officials were not aware of any formal attempt to quantify these savings or to determine whether the merger has, in fact, generated any economy.**

On April 24, 1991, subsequent to our field work, senior management of the hospital provided the Ministry of Health with a copy of a report dated May, 1990 which indicated various annual savings from the merger. However, as previously mentioned, the hospital declined to provide us with information on the savings realized from the merger, and accordingly we were unable to verify the accuracy of the savings indicated in the report to the Ministry.

RESPONSES

The Chairman of the Board of The Toronto Hospital and the Deputy Minister of Health responded to our audit report.

ACQUISITIONS

The Chairman of the Board responded: *"We feel that competitive practices are followed for the acquisition of equipment... and other supplies and services. Although the report raises some questions, we feel adequate explanations have been provided. With respect to [your comments regarding the purchase of laundry services], The Toronto Hospital is a member of this not-for-profit corporation without share capital which has provided laundry services to a group of downtown hospitals since 1968. The Toronto Hospital currently accounts for 40% of the volume of this facility, maintains an active role on the Board of Directors, and has a major equity in [the corporation]. The 20-year agreement expired on final repayment of the debentures. [The corporation] is presently finalizing a laundry service agreement for signature by all users. This document will be reviewed with our Finance Committee along with supporting documents to reaffirm the competitiveness of the service.*

"Hospital policies are being updated and will be revised to ensure adequate documentation is retained, and major contracts and significant variances from policy are reported."

INVENTORIES

The Chairman of the Board responded: *"Accounting controls... over non-controlled drugs... were inaccurate at the time of the inspection audit because of*



Comments on Cross-Ministry and Special Audits

2.8 cont'd

problems with the computerized system. Physical control over inventories is good, and financial records are adjusted at year end to ensure accurate financial reporting.

"The Toronto Hospital will be implementing an improved computerized inventory system in 1991/92 as part of an ongoing program to upgrade financial reporting systems. These changes will overcome the problems with perpetual records and improve management reporting. The inventory record of fixed assets will be test checked periodically by physical counts."

OTHER MATTER

The Deputy Minister responded: "Potential savings as a result of the merger were not quantified at the time the merger was approved... These were taken into consideration at the time the Ministry of Health approved a \$65 million capital expenditure for redevelopment at the Western site with the Ministry funding [one half] rather than the usual [two thirds]."

The Chairman of the Board responded: "The Toronto Hospital Management meets regularly with... senior representatives of the Ministry of Health, and reviews a number of issues including progress of the merger, redevelopment of hospital facilities and other significant matters. We will continue this practice and will review progress of the merger and significant consolidations or changes prior to implementation."

2.9

Inspection Audit, Toronto East General Hospital, Ministry of Health

Toronto East General and Orthopaedic Hospital Inc. is a 650-bed facility which offers numerous in-patient and out-patient services.

During the 1990 fiscal year, the hospital's expenditures were approximately \$94.6 million. Revenues were approximately \$98.4 million, consisting of \$87.1 million in Ministry of Health operating grants and \$11.3 million from other sources.

SUMMARY

Our scope and objectives were similar to those outlined in the previous section on The Toronto Hospital. Our conclusions and findings were as follows:

Acquisitions

Overall, we concluded that the accounting records and related procedures for non-payroll expenditures at Toronto East General Hospital were satisfactory. However, improvements were required in the documentation of acquisition decisions. For example:

- we were unable to determine whether acquisition policies had been followed in 29 of 73 expenditures examined. There was no documentation on file at the time of our audit to indicate either the use of competitive practices or the reasons for waiving competition; and



Inspection Audit, Toronto East General Hospital

2.9 cont'd

- ten of these purchases, each over \$25,000, totalled \$1.8 million and included one purchase for security services costing approximately \$650,000.

Inventories

In the pharmacy department, we found that accurate perpetual methods were maintained for both controlled and non-controlled drugs, and that access to these drugs was restricted to authorized employees. However, there was a potential for loss of non-controlled drugs in hospital units to go undetected because the hospital did not periodically reconcile available records to stock on hand. As well, there were significant differences between the records of medical and surgical supplies and actual stock on hand.

Controls over inventories of equipment were satisfactory.

RESPONSE

The Chairman of the Board of Toronto East General and Orthopaedic Hospital Inc. responded to our audit report.

Acquisitions

"The hospital will establish a policy to retain documentation supporting acquisition decisions. In addition, management will provide details to the Finance Committee of exceptional circumstances where competitive bidding was waived."

Inventories

"[With respect to non-controlled drugs], management will implement a system to document that variances are investigated and the explanations are recorded."

"[With respect to medical and surgical supplies], management will establish a system to document that variances shown on the monthly cost reports are investigated and the explanations recorded."



Comments on Cross-Ministry and Special Audits

2.10

School Board Inspection Audits, Ministry of Education

In 1991 we completed inspection audits at six school boards—the Simcoe County Public and Separate Boards, the City of Windsor Public and Separate Boards, the Peel Public Board and the Dufferin-Peel Separate Board.

Collectively, these boards have approximately 21,000 employees, including 15,500 teachers. They operate 490 schools for over 240,000 students. Their operating expenditures for 1989 totalled \$1.4 billion, of which \$550 million was funded by the Ministry of Education.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of these boards assessed whether:

- purchases were adequately controlled and complied with board policies and procedures;
- the acquisition and management of student transportation services were adequately controlled; and
- the boards were eligible for certain program-specific grants from the Ministry, and spent the funds according to the terms approved.

CONCLUSIONS AND FINDINGS

PURCHASES

Controls over purchases were satisfactory at four of the six boards. At the remaining two boards, controls were less than satisfactory. We noted:

- failure to obtain competitive bids in accordance with established policies (all six boards);
- continuous reliance on suppliers after a deficient competitive process (five of six boards);
- purchases from suppliers who were not the successful bidder for the items purchased (three boards); and
- outdated purchasing policies requiring tenders to be sought for relatively small transactions (three boards).

ACQUISITION OF STUDENT TRANSPORTATION

Overall, controls over the acquisition of student transportation services were less than satisfactory.

- A competitive process was not used to help ensure the best value for funds spent (all six boards).



School Board Inspection Audits

2.10 cont'd

- We noted a variety of deficiencies in contracts entered into with operators (three boards).

MANAGEMENT OF STUDENT TRANSPORTATION

All but one of the boards audited had satisfactory controls over the management of student transportation. However, we noted opportunities to reduce transportation costs in all boards audited:

- Sharing transportation services with coterminous boards was rarely considered.
- Savings were possible from staggering school hours between elementary and secondary schools (four of six boards).
- Routes were planned based primarily on eligible ridership rather than on actual ridership (three boards).
- Route planning was done using a manual information base (five of six boards).
- Three boards, in our view, had overly generous policies for walking distances.

PROGRAM-SPECIFIC GRANTS

We were satisfied that, with few exceptions, the boards were eligible for the grants received and that they spent the grants according to the terms approved.

OTHER MATTERS

One board was slow to identify and act to reduce underutilized schools. Although the board had begun to close underutilized schools, more needed to be done.

The Ministry of Education has undertaken certain initiatives to strengthen school board accountability.

COMMENTARY

PURCHASES

For the year ended December 31, 1990, operating expenditures of the six boards audited, excluding payroll and student transportation, amounted to \$280 million. Typical expenditures include school, office and maintenance supplies, services and equipment.

Although all boards required some improvement in their competitive process for acquiring goods and services, this deficiency was only significant at two of the six boards audited (Simcoe County Separate and Dufferin-Peel Separate).



Comments on Cross-Ministry and Special Audits

2.10 cont'd

Lack of Competitive Bids

Board purchasing policies contain provisions requiring that purchases be competitively obtained through verbal quotations, written quotations or formal public tender, depending on the dollar value involved. Boards also normally require the documentation of reasons in cases where these policies are not followed.

At all boards, we selected a representative sample of purchase transactions in the 1989 and 1990 fiscal years to test for compliance with these policies.

The following are examples of weaknesses noted:

- At Dufferin-Peel Separate during 1990, the plant department hired four contractors at a total cost of \$139,000 for various jobs without competitive bids or purchase orders. The jobs represented paving at three schools (\$63,000), laying sod on a playing field (\$30,000), three fencing installations (\$27,000) and installation of carpeting at a school (\$19,000).
- At Peel Public, educational supplies and toys totalling approximately \$95,000 were purchased from one supplier in 1990 without obtaining quotes or tenders. Purchasing staff indicated that the items were difficult to tender, as they were small and varied. Our search of other suppliers revealed that several offer volume discounts for such items.
- At Simcoe County Separate, plant staff hired a flooring company to refinish three gym floors for approximately \$15,000. We were advised that no quotations were obtained because the job was specialized and few companies were qualified to do the work. We noted that there were numerous qualified contractors in the county to do this type of work.

Continuous Reliance on Suppliers

For reasons of expediency and satisfaction with a supplier, boards will sometimes continue to purchase from a supplier for several years without periodically considering alternatives or permitting other suitable suppliers an opportunity to obtain board business.

- At Windsor Public, a blanket purchase order for both paint and paint supplies was issued in January 1988 without obtaining competitive bids. From January 1988 to January 1991, purchases charged to this blanket order, all from the same supplier, totalled approximately \$200,000. We were advised that this brand of paint was selected because of its quality and that the Manager of Purchasing and Supply used his discretion to purchase this product. We noted that in Windsor there were at least two other suppliers of this brand of paint.
- At Simcoe County Separate, classroom furniture totalling \$286,000 was purchased in 1989 and 1990 without obtaining competitive bids. Management informed us that the Board had dealt with this supplier for many years and was satisfied with the quality of the product. We did note, however, the existence of many other suppliers of classroom furniture.



School Board Inspection Audits

2.10 cont'd

- At Windsor Separate, certain janitorial supplies were continually bought from the same suppliers. In 1990, about \$22,000 of floor stripper was purchased from one supplier, over \$12,000 of floor wax was acquired from another supplier, and plumbing supplies totalling \$40,000 were purchased from only one supplier.

Purchases from Suppliers Who Were Not the Successful Bidder

This problem is most likely to occur with high volume purchases of low dollar items such as science equipment and school supplies.

- At Dufferin-Peel Separate, nine bids were received in 1990 on a science supplies tender, and the lowest bid was accepted. However, during the year, the Board purchased approximately \$123,000 or over 35 per cent of the total purchases of science supplies from a company that was disqualified for not meeting the tender conditions. The Board had recorded this company as "no bid". We estimated that the Board paid \$55,000 more than it would have if these items had been acquired from the successful bidder.
- At Peel Public, there was a June 1990 tender for primary and junior science equipment. Various items were included in the tender, including beakers, test tubes, flasks and thermometers. Bids were received from seven companies, and each was awarded certain equipment items.

For one of these companies, a comparison of prices paid to prices obtained in the tender awarded indicated that the Board had overpaid. Additionally, items were purchased from this supplier even though another supplier was the successful bidder for those specific items.

Tender Limits

In the case of three boards, Simcoe County Public, Windsor Separate and Dufferin-Peel Separate, we felt that consideration should be given to increasing the dollar value of limits for obtaining written quotations and formal public tenders.

The existing limits had not been changed for a number of years, and were low in relation to other boards audited. For example, two of these boards required formal public tenders for purchases exceeding \$7,500 and in the case of the other board, the limit was \$5,000. These amounts were low when compared to what we considered to be a more realistic level of \$25,000 at two of the other boards audited this year and one of the two boards audited last year.

ACQUISITION OF STUDENT TRANSPORTATION

For 1990, expenditures for student transportation at the six boards audited were \$63.5 million, of which \$50 million was funded by the Ministry of Education.



Comments on Cross-Ministry and Special Audits

2.10 cont'd

Boards typically contract with operators for buses, vans and cabs. In some cases, contracts are also entered into with public transit companies.

Lack of Competitive Process

With all six boards, the services of operators were acquired without using a competitive process. Although all boards examined negotiated for these services, few have done a sufficient analysis of the costs involved to provide a meaningful basis for negotiations.

A competitive acquisition process generally results in obtaining the best value for the funds to be spent, as well as allowing suppliers fair access. However, the subject of tendering for transportation services is controversial among boards, and many are not convinced it will result in any significant savings. Boards are also concerned about maintaining safety and service requirements and creating monopoly situations through selection of the lowest bidder.

However, given the large differences in rates among boards even within the same region, we felt a more competitive process would indeed produce savings and better demonstrate fairness to potential operators. Tendering can be a viable alternative provided that service and safety requirements are clearly specified in the request for proposal.

To avoid monopoly situations and maintain flexibility, options to consider would include:

- grouping routes in packages and seeking invitational tenders for each package;
- inviting operators to submit proposals complete with the routes they wish to service, the number of vehicles available, and associated costs; and
- seeking open tenders on all routes but limiting the proportion of routes awarded to any one operator.

Additionally, in four of the six boards audited, rates paid to operators were based primarily on inflation, increases in operator costs and limited comparisons with surrounding boards. Rarely was a detailed cost analysis performed to provide a basis for rate negotiations with operators. Cost analysis should include the capital cost of the buses and related depreciation factors, financing costs, licences, insurance, drivers' wages, maintenance, overhead and a reasonable profit margin.

As a result of the negotiation process, some operators were paid substantially more than other operators for similar services. This situation was noted at both Peel Public and Dufferin-Peel Separate. At the latter board, for example, the highest paid operator was paid \$2,400 more per bus for the 1990/91 school year than the second highest operator and \$5,000 more per bus than the lowest priced operator, for identical buses. Based on the 90 buses supplied by this operator, the extra cost to the Board ranged from approximately \$200,000 to \$450,000.



School Board Inspection Audits

2.10 cont'd

Contracts with Operators

We noted a variety of deficiencies in contracts entered into with operators. The most common deficiencies included:

- fuel cost escalation clauses which were based on gasoline prices although the majority of school buses used diesel fuel (2 boards);
- escalation payments which were made without provision in the operator contracts (1 board);
- lack of provision for the right to terminate or transfer routes to other operators should service not be acceptable (2 boards); and
- failure to involve trustees in the review and approval of transportation contracts (4 boards). Notably, the Simcoe County Public and Separate boards had appointed transportation committees of the Board whose duties included reviewing and approving such contracts.

MANAGEMENT OF STUDENT TRANSPORTATION

Most boards ensured that buses were operated at or near capacity, including the use of multiple routes for buses. All boards paid their operators in accordance with contracts. All but one board had claimed their transportation grants from the Ministry correctly.

We did, however, identify opportunities to reduce transportation costs in virtually every board audited.

Sharing Services with Coterminous Boards

In the three sets of coterminous boards we audited, there was either very limited or no sharing of transportation routes. The greatest potential for sharing exists for routes where buses are underutilized. Combining bus routes for the public and separate boards can result in the elimination of buses or substitution of more suitable bus sizes, resulting in significant cost savings.

The Peel Public and Dufferin-Peel Separate Boards have, in fact, jointly administered transportation services for physically handicapped students for several years. Additionally, these two boards have initiated a joint study to determine the feasibility of consolidating both transportation systems into one, with the view to achieving substantial cost savings.

Staggering of School Hours

In four of the boards audited, all schools (elementary and secondary) started and finished the day at the same time. Consequently, two



Comments on Cross-Ministry and Special Audits

2.10 cont'd

different buses would be required even where the secondary and elementary schools were in close proximity.

However, if the secondary school opened and closed one-half hour earlier than the elementary school, only one bus would be required. The one bus could first pick up students for the secondary school, then do a second route to pick up elementary students.

Both Peel Public and Dufferin-Peel Separate have achieved as many as four runs per bus and substantial savings from staggering school hours. Savings are greatest for urban areas where schools are in close proximity to each other. Less densely populated areas could achieve savings by staggering school hours in conjunction with the coterminous board.

Eligible vs. Actual Ridership

Boards generally plan routes based primarily on the number of eligible students living within transportation zones. **As a result, buses were hired to accommodate students whether or not they actually used the transportation services.**

- At Peel Public, we asked bus operators serving five secondary schools to provide the actual number of students boarding their buses on a specified day. We then compared their counts to the number of students who were eligible to use those buses and found that, on average, only about 75 per cent of eligible students were actually riding the buses.

For the 96 routes serving 5 secondary schools we examined, by using actual instead of eligible riders we felt it would be possible to eliminate 2 buses and downsize a further 38 for annual savings of \$160,000.

- At Dufferin-Peel Separate, the transportation department conducted a survey at one secondary school which was located in a temporary location. The survey concluded that approximately 20 per cent of the students eligible for transportation would not be using it. Acting on the survey resulted in total savings exceeding \$200,000 for the 1990/91 school year.
- Simcoe County Public had recently begun to study actual student ridership and had determined that significant savings were possible either from downsizing buses or actually eliminating routes.

Route Planning

At the time of our audits, bus routes were designed and managed at five of the six boards using a manual information base.

In the case of Simcoe County Public, the existing information base was inadequate to permit effective route planning, thus contributing to less efficient utilization of buses. Information needed would include the number of students requiring transportation, the location of student residences and pick up points,



School Board Inspection Audits

2.10 cont'd

the number of students picked up at each location, and the distance and driving time for each route.

Dufferin-Peel Separate, on the other hand, had a computerized route management system which has enabled staff to effectively and efficiently design and manage their bus routes, thus reducing the number of buses needed.

Peel Public acquired a computerized route management system in 1986 at a cost of over \$400,000. The implementation of this system, originally planned for the 1987/88 school year, was delayed until the 1991/92 school year. We were advised that this delay was primarily due to an incomplete student information system. The Board estimated there would be a saving of over \$1 million in the first year alone from the resulting reduction in buses.

We believe that most boards would benefit from the acquisition of route management software in co-operation with other boards and/or the Ministry.

Walking Distances

School boards, rather than the Ministry, set policies regarding student eligibility for transportation. The primary factors considered when developing these policies are the age of the students and distance from the school.

In our view, three boards had overly generous policies regarding walking distances.

- At Simcoe County Separate, students were eligible for transportation if they lived 1.6 kilometres or more from a school or when safety or health concerns existed. Secondary students received the same service as kindergarten students.

We felt that this policy was very generous. For example, the coterminous board provided transportation services for its students based on the following distances: junior and senior kindergarten - 0.8 kilometres; grades 1 through 8 - 1.6 kilometres; secondary - 3.2 kilometres.

- At Windsor Separate, the policy was identical to that of Simcoe County Separate.
- At Windsor Public, elementary students up to nine years old were eligible for public transportation if they lived more than 1.6 kilometres from a school or when health or safety concerns existed. Older students, including those attending secondary schools, were eligible if they lived more than 2.0 kilometres from a school. Many boards require secondary students to walk at least 3.2 kilometres to school.

Additionally, two of these boards had inadequate control over exceptions to their policies on walking distances.

- At Simcoe County Separate and Windsor Separate, transportation was provided for a number of students who lived within the established 1.6 kilometre



Comments on Cross-Ministry and Special Audits

2.10 cont'd

boundaries. At both boards, we were advised that this had been permitted for many years due to safety concerns.

We felt that more formalized procedures for granting transportation exceptions for safety reasons should be established and adherence to them periodically reviewed and approved.

Other

Use of Public Transit

Both Windsor Boards require most secondary students who are eligible for transportation to use public transit, which is much more cost effective than using contracted vehicles.

Additionally, both Peel Public and Dufferin-Peel Separate were making limited use of public transit, but recognized the potential for substantial additional savings from increasing its use.

We believe significant savings could be achieved if other boards were to investigate the use of public transit in urban areas, for both secondary and senior elementary students. In Windsor alone, for example, using public transit for secondary students rather than buses saves over \$1.3 million annually.

Questionable Claim for Transportation Grant

As a result of a public transit strike from October to December 1990, the Dufferin-Peel Separate Board temporarily hired ten additional buses to transport the students who normally used public transit. However, the Board claimed these buses for grants from the Ministry as if they were in service for the entire school year rather than the 45 days they were actually used.

The Ministry's grant formula calculates the annual transportation grants based on the buses in service on October 31. We were advised by the Board that the temporary buses were claimed since they were actually in service on that date. However, the Board also claimed public transit costs for the period before and after the strike. As a result, both public transit and school bus grants were claimed for an overlapping period of 137 days resulting, in our view, in approximately \$154,000 in excess grants.

PROGRAM-SPECIFIC GRANTS

Ministry funding to school boards includes numerous program-specific grants. These are to fund special initiatives for which the Ministry sets out objectives, reporting requirements and indicates targets which are to be achieved.



School Board Inspection Audits

2.10 cont'd

Our audits focused on the following five classes of program-specific grants received by the six boards in 1989 and 1990:

| | 1990 (thousands) | 1989 (thousands) |
|---|---------------------|---------------------|
| Grant-eligible microcomputer systems (GEMS) | 11,321 | 11,002 |
| Portable classrooms | 1,195 | 2,911 |
| Software classrooms | 499 | 669 |
| Co-operative education/transition to employment | — | 104 |
| Learning skills | 250 | 250 |

With relatively few exceptions, the boards audited were eligible for the grants received and the grants were spent according to the terms approved.

OTHER MATTERS

Underutilized Schools - Windsor Separate

In 1969, several small school boards were amalgamated with the Windsor Separate Board. After consolidation, the new Board was left with many small, inefficient schools.

To compound the problem, the Windsor Separate Board's elementary enrolment has declined by 6 per cent (more than 680 pupils) over the past eight years despite the significant impact of introducing some 1,400 junior kindergarten students. This has resulted in additional surplus schools.

Ministry of Education guidelines require boards to develop a school closure policy. The Board's school closure policy identifies the steps to be taken by the Board from the identification of a school to the disposal of the site. This policy states that a study for school closure will be undertaken whenever certain criteria, such as enrolment, are of concern.

In May of 1990, the Board engaged a consulting firm to assist with an Operational Review and School Retention Strategy Study. The review dealt foremost with the issues of matching the needs for individual school buildings to a declining population for the City of Windsor.

The report concluded that many of the Board's financial problems resulted from too many elementary schools. Underutilized schools contribute to excessive overheads



Comments on Cross-Ministry and Special Audits

2.10 cont'd

and a low pupil-teacher ratio. A school retention model was developed to assist the Board in deciding which schools to close.

After applying the model to all schools, the Board named nine schools to be closed by September, 1992. It was estimated that the closing of these nine schools would save approximately \$3 million annually.

We felt such a decision should have been made a number of years ago. Board statistics show that nine of the Board's 35 elementary schools had been operating at less than 50 per cent capacity since 1985. A 1989 report prepared by Administration recommended the closure of four schools. However, the Board voted to close only two of them. All four schools studied had enrolments of less than 150 and operated at an average of 33 per cent of capacity. The remaining two were subsequently scheduled to be closed as part of the nine schools named to be closed by the Board. The lack of action by the Board resulted in foregone savings, and contributed to the Board's deficit.

Ministry Initiatives

The Standing Committee on Public Accounts held meetings in February 1991 to review sections of our 1990 Annual Report related to school board inspection audits (Lakehead Public and York Region Separate) and the financial accountability framework for Ministry grants to school boards.

At these meetings, the Ministry outlined a number of the initiatives it has undertaken to strengthen school board accountability:

- Changes to the funding model for student transportation grants to ensure greater economy and efficiency and to make trustees more accountable for transportation decisions taken by local boards. We understand that the changes have been introduced in stages for the 1991 grant submissions and will begin to take effect in 1992.
- Establishment of an education expenditure and financial analysis section to provide comparative analyses of school board expenditures.
- Including in future ministry transportation audits an examination of the board's tendering process and/or the feasibility of tendering for transportation services.
- More closely monitoring how school boards spend program-specific grants provided by the ministry.
- Continuing to actively promote resource sharing between boards.

RESPONSE

At the completion of each of our six inspection audits, a report was sent to the relevant school board. In addition, the results of these six audits were summarized in a letter to the Deputy Minister of Education dated August 27, 1991.



School Board Inspection Audits

2.10 cont'd

The Deputy Minister of Education responded to our letter. In addition, three school boards responded to our audit reports (Dufferin-Peel Separate, Simcoe County Separate, and Windsor Public).

PURCHASES

Ministry: *"The Ministry is pleased that controls over purchasing are generally satisfactory, and will continue to encourage Boards to improve policies and strengthen controls."*

Simcoe County Separate: *"Based on the Provincial Auditor's scope and objectives as stated in the opening remarks, one of the purposes of this inspection audit was to assess whether purchases were adequately controlled and complied with Board policies and procedures. Consistent with the findings of the Board's fiscal auditors, the Provincial Auditor did not find any control weaknesses in the Board's systems... It is based on this that the Board disagrees with the Provincial Auditor and feels its controls over purchases are adequate. We agree with the findings on purchasing policy and procedures."*

"As the Board's purchasing procedures were not instituted when the Provincial Auditor inspected, they discovered they were seeking to audit something that did not exist. Board policy is clearly within the Board's mandate and not that of the Office of the Provincial Auditor."

Lack of Competitive Bids

Simcoe County Separate: *"The Board has adopted a process to address [concerns about competitive purchasing] for the future."*

"Decisions of the purchasing department will be documented and available for public scrutiny."

Continuous Reliance on Suppliers

Simcoe County Separate: *"Implementation of the Board's purchasing procedures will provide fairer access to the competitive bid process for the Board."*

Windsor Public: *"[The paint order to which you refer] is a blanket order for a specified brand of paint and has been purchased from the only distributor in Windsor. Recently other firms have offered this product, and they will be included in future price requests."*

"This brand of paint has been a long standing standard for the Board. Our Plant Department cites the ease of application, hiding quality, good coverage, longevity and washability as the major criteria for selection of paint products. All of these qualities are cost saving factors in application, maintenance and repainting cycles."



Comments on Cross-Ministry and Special Audits

2.10 cont'd

ACQUISITION OF STUDENT TRANSPORTATION

Ministry: *"We have noted the weaknesses in the acquisition of transportation services. However, both the Boards and the Ministry have over the past two years taken proactive steps to address these weaknesses, e.g., the development of the Student Transportation Management System (STMS). This system is a transportation management and costing computer program to effectively assess costs, and will be available to ECNO participants. Presently three boards have adopted phase two of the system; more are expected to follow with completion of phases three through five."*

"The Ministry's concern over the usage of negotiation versus tendering was communicated to all Directors of Education on February 22, 1991. Future Ministry transportation audits will examine this issue further."

Windsor Public: *"The Board believes a complete review should be made of all transportation routes and a determination made which routes should continue in light of the newly announced restrictive government funding for student transportation in Windsor. Once this is completed, a decision will be made whether or not to submit transportation services to the competitive process on a multi-year basis."*

Lack of Competitive Process

Dufferin-Peel Separate: *"The Dufferin-Peel process [of acquiring student transportation services] has resulted in a low cost, safe, politically acceptable system. The Provincial Auditor's approach, in this instance, is inappropriate, when service levels and historical precedent dictate to a degree whether the system succeeds or fails."*

"The Board accepts the general comment that a competitive process generally results in obtaining the best value for the funds to be spent. However, in the case of transportation, the concept must consider service levels, safety and the various problems in dealing with a low bidder. Several school boards and associations have discussed these concerns with the Provincial Auditor."

"Provincial surveys, board comparisons and ongoing relationship with the industry provides the 'costing' knowledge. Surveys indicate that our overall contract package is not out of line and that our cost per student is among the lowest in the province. However, the Board accepts the point that the process of negotiation and the rationale for decisions were not well documented and, therefore, not publicly justified."

"By adjusting contract sizes based on operator performance, the Board has created a competitive atmosphere. Any attempt to build in greater efficiencies in this area should be done with a sensitivity to the maintenance of good service levels."

"The comparison of our various rates draws the false conclusion that 'the extra cost to the Board ranged from approximately \$200,000 to \$450,000'. This analysis merely compared our lowest price to our highest price assuming that all prices should be the same. This approach ignores legitimate reasons and our Board's specific situation. Our rates vary for various historical reasons including a driver shortage two to four years ago. One operator let the Board down and the other incurred costs to rectify our situation. The contract rates reflect these and other realities."

School Board Inspection Audits



2.10 cont'd

Simcoe County Separate: *"The [Office of the] Provincial Auditor's comments regarding 'a competitive acquisition process generally' resulting in best value for the Board's money hints at their agreement that a competitive process doesn't always equate with tendering. The issue of tendering bus transportation is a very complex issue which needs a great deal of study before a 'blanket' tendering policy can be implemented.*

- *Tendering may result in a low-cost competitive process but its potential sacrifices need to be explored.*
- *The Board fears that safety and reliability may suffer.*
- *As well, the Board's span of control would likely erode as a monopoly would develop as a result of many of the Board's smaller operators not winning routes.*
- *Additionally, the large capital outlays required to enter this business could prohibit new operators from gaining fair access to business.*
- *Depending on the frequency of tendering, the Board could not find itself bound by a contract which would not be consistent with needs and policies."*

Windsor Public: *"The Purchasing Policy at the Board does not apply to the acquisition of transportation.*

"The Board employs five different bus operators, vans, taxi cabs and trains in an attempt to provide the most economical mode of transportation. Each particular case requires an individual decision to employ the most economical mode of transportation for students given a particular set of circumstances. A competitive acquisition process may produce a lower cost in the short run. However, we know of no conclusive study that indicates that competitive pricing (tendering) results in better price and service in the long run. We would like to point out that the majority of school boards in the province negotiate their transportation rates.

"The rates negotiated compare favourably with the rates obtained by other school boards in Essex County."

MANAGEMENT OF STUDENT TRANSPORTATION

Ministry: *"We are pleased that, with one exception, the Boards audited had satisfactory controls over the management of student transportation. Changes to the funding model for student transportation are being undertaken by the Ministry. Nonetheless, we welcome the Provincial Auditor's suggestions for improving the administration of transportation services and resources."*



Comments on Cross-Ministry and Special Audits

2.10 cont'd

Sharing Services with Coterminous Boards

Dufferin-Peel Separate: "The Board continues to consider and implement shared services with its coterminous boards where the integrity of each system is maintained and cost savings for both boards can be demonstrated."

Simcoe County Separate: "To improve efficiencies, the Board is exploring... joint ventures in transportation with the Simcoe County Board of Education and the Muskoka Board of Education. These joint ventures would develop computerized systems to improve efficiencies between and across respective Boards."

Staggering of School Hours

Simcoe County Separate: "Recent actions adopted by the Board and recommended to the Provincial Auditor as potential courses of action to issues they have identified have been implemented. The Board has in most of its communities implemented better utilization of buses contracted for service through institution of staggered school hours and route design changes allowing a bus time to do at least double runs, thereby reducing the need for one bus each time this change is successfully implemented."

Windsor Public: "Consideration will be given to implementing staggered elementary school hours in co-operation with the coterminous separate board. It is felt, however, that this initiative will require more time and will be investigated for the 1992 school year."

Walking Distances

Simcoe County Separate: "We agree and had already directed Administration to bring forth some recommendations surrounding this."

Windsor Public: "The Board agrees that certain transportation provisions have been generous. The Board has approved an increase in the eligibility for secondary school public transit passes from 2.0 to 3.2 km."

Other

Questionable Claim for Transportation Grant

Dufferin-Peel Separate: "These grants were applied for in accordance with the Ministry's Grant Application Instructions. There is no deviation from the regulation."



Staffing Levels in School Boards

2.10 cont'd

PROGRAM-SPECIFIC GRANTS

Ministry: *"The Ministry is... pleased that, with few exceptions, the boards were eligible for grants received, and that these were spent in accordance with approved terms. All grants that have been inappropriately paid will be recovered."*

OTHER MATTERS

Underutilized Schools - Windsor Separate

Ministry: *"The Windsor RCSS Board has already submitted a written plan to reduce the deficit. The Plan was based on the recommendations of the Operational Review and School Retention Strategy Study."*

"The Ministry requires all Boards to establish a school closure policy. However, the Education Act places the decision-making responsibility on the school boards."

2.11

Trends in Staffing Levels in Ontario School Boards, Ministry of Education

STATISTICS

As an adjunct to our school board inspection audits, we obtained overall statistics from the Ministry on staffing and enrolment levels as of September 30, 1985 and 1990.

Staffing was summarized for the following three categories, based on full-time equivalent personnel:

- | | | |
|----------------------|---|--|
| Supervisory officers | - | primarily superintendents, assistant superintendents and the directors of education. |
| Professional staff | - | including principals, vice-principals, teachers and other support professionals such as consultants, counsellors and social workers. |
| Other staff | - | including teacher aids, technicians, administrative, custodial and other support services. |



Comments on Cross-Ministry and Special Audits

2.11 cont'd

The most relevant statistics appear in the following tables:

| | 1985 | 1990 | Growth % |
|----------------------|-----------|-----------|-------------|
| Schools | 4,477 | 4,737 | 5.8 |
| Pupils | 1,760,000 | 1,936,000 | 10.0 |
| Supervisory officers | 846 | 930 | 9.9 |
| Professional staff | 104,000 | 125,300 | 20.5 |
| Other staff | 36,600 | 48,700 | 33.1 |

| | 1985 | 1990 |
|--|------|------|
| Schools per supervisory officer | 5.3 | 5.1 |
| Professional staff per supervisory officer | 123 | 135 |
| Pupils per professional staff | 16.9 | 15.5 |

OBSERVATIONS

Supervisory Officers

The proportion of supervisory officers to both schools and professional staff remained relatively constant during the five-year period. Additionally, both enrolment and the number of supervisory officers have grown on average by about 10 per cent.

Professional Staff

This is the largest and most costly staffing category in school boards so changes in professional staff have a significant impact on education costs. Overall, the professional staff levels in school boards have increased 20 per cent in five years, almost twice the rate of enrolment growth. Corresponding pupil-teacher ratios have declined.

Policies such as mandatory junior kindergarten, and grades 1 and 2 class size reductions have all contributed to the growth in professional staff and reduced pupil-teacher ratios. No conclusive evidence is as yet available to indicate whether these lower ratios have improved the quality of education.



Staffing Levels in School Boards

2.11 cont'd

Other Staff

Surprisingly, this staffing category has shown the most dramatic growth over the five-year period. Its growth rate of over 30 per cent is triple the rate of enrolment growth and 50 per cent higher than the growth in professional staff.

RESPONSE

The Deputy Minister of Education responded to our audit report.

"In the very short turn-around time allowed for our response, we cannot make any specific comment. Your observations will, of course, be reviewed by the Ministry and taken into consideration in any future policy/financial initiatives."





CHAPTER

3

COMMENTS ON MINISTRY
AND CROWN AGENCY AUDITS





CHAPTER 3

COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

3.1

Introduction

The comments contained in this segment of the Annual Report pertain to audit observations and recommendations resulting from Ministry and Crown agency audits.

The comments on ministries were selected from the cyclical "value for money" and compliance audits of ministries. The audits on which the comments are based were completed since our last Report and are listed in Exhibit 2.

The annual attest audits of agencies of the Crown and Crown-controlled corporations are primarily designed to express an opinion on whether the financial statements are presented fairly. These audits are listed in Exhibits 3 and 4, respectively.

In addition to the attest audits, some agencies are selected by the Office for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

3.2

Livestock and Dairy Inspection, Ministry of Agriculture and Food

The Ministry of Agriculture and Food spent \$31 million in the 1990 fiscal year for the Quality and Standards Activity to enhance the quality and safety of food produced in Ontario.

SUMMARY

SCOPE AND OBJECTIVE

Our objective was to assess the adequacy of the livestock and dairy inspection process in assuring food quality and safety.

Our audit was conducted both at the Head Office of the Ministry and through a number of visits to district offices for each of the Inspection Branches. We visited several of the Province's laboratories, including the Pesticide and Veterinary Laboratories in Guelph. Our review also included visits to a dairy, a dairy farm, and poultry and meat slaughterhouses. We held supplementary discussions with several other federal and provincial organizations including the Ministry of Health, Health and Welfare Canada, and Agriculture Canada.

CONCLUSIONS AND FINDINGS

LIVESTOCK

The inspection process was less than satisfactory in assuring food quality and safety. Little or no enforcement action had been taken against slaughterhouses whose facilities or equipment did not meet the requirements of the *Meat Inspection Act*. Thirty per cent of the inspection reports which we sampled rated slaughterhouses as significantly deficient.



Comments on Ministry and Crown Agency Audits

3.2 cont'd

The Ministry has, however, initiated inspection of certain slaughterhouses where inspection is not mandatory. This has been done to reduce the risk of uninspected meat being sold to the public.

We also found that meat inspectors in some locations were off-duty or underutilized by as much as 25 per cent of the total available time due to scheduling inefficiencies. Off-duty time was estimated to have cost at least \$700,000 per year.

DAIRY

The inspection process was satisfactory in assuring food quality and safety. The Central Milk Testing Laboratory has improved the accuracy of its testing for milk quality. In addition, improved reporting to inspectors has allowed them to identify problems requiring prompt follow-up.

However, inspection coverage would have been improved by better use of staff in risk areas. Farm inspectors often made multiple visits to non-problem dairy farms, while overall 30 per cent of the province's 9,000 dairy farms had not been inspected.

BACKGROUND

The Quality and Standards Activity provides programs that ensure continued consumer confidence in the safety and quality of food products processed and consumed in Ontario through regular inspection of dairy, livestock and fruit and vegetable products. The program also provides laboratory analysis of food products for pesticide residues and other contaminants, and of animals for disease.

The Livestock Inspection Branch administers and enforces meat inspection programs to ensure the quality and safety of animal products. There are over 260 slaughterhouses in the province, inspected by approximately 130 meat inspectors. Expenditures in the 1990 fiscal year were approximately \$9 million.

The Dairy Inspection Branch provides inspections of dairy farms, bulk-tank truck operators, and dairy plants. These inspections are supported by tests performed at the Central Milk Testing Laboratory to help identify problems with milk quality. There are approximately 40 inspectors. Their caseload includes approximately 190 dairy plants and approximately 9,000 dairy farms. Expenditures in the 1990 fiscal year were approximately \$7 million.

COMMENTARY

LIVESTOCK

An inspector must be present in each provincially licensed slaughterhouse during operating hours. Their responsibilities include inspection of all slaughtered poultry and livestock to ensure that meat is fit for human consumption.



Agriculture and Food Livestock and Dairy Inspection

3.2 cont'd

Inadequate Enforcement of Slaughterhouse Regulations

Inspectors monitor adherence by slaughterhouses to the requirements of the Act in areas such as sanitation of equipment and working areas, condition of equipment, methods of meat handling, adequacy of temperatures in coolers, and methods of transporting products. The Act gives the Branch Director the right to refuse to renew a slaughterhouse licence if it is believed that the premises, facilities or equipment do not meet the standards outlined in the Regulations. The Director also has the authority to suspend a licence if it is believed that the health of the public could be adversely affected by the sale of meat.

We reviewed a representative sample of inspection reports and found that:

- **Thirty per cent of the sampled reports classified slaughterhouses as "critically deficient" because of such things as extremely unsanitary conditions or a need for extensive repair. We found disciplinary action against these plants to be limited.** Regulations permit the Director to call a hearing to specify an action plan regarding non-compliant operators. However, in the last four years only one such disciplinary hearing has been called by the Ministry.
- **There were no standard follow-up procedures or formal time limits set for correcting problems.** The same problems had often been identified for many years at the same slaughterhouse. None of these plants have had their licences revoked. A similar observation was noted in our 1985 report to the Ministry.

Inspection Initiatives on Exempt Slaughterhouses

Exempt slaughterhouses are not licensed and currently do not require Ministry inspection. These plants cannot sell their meat on the retail market. The meat can only be consumed by the animals' owners.

Ministry inspection staff have had concerns about the quality of meat at exempt plants because of the possibilities that organs or whole carcasses of animals could be affected by tuberculosis, or that carcasses could contain trichina, tapeworm, or decomposed meat.

Inspectors were also concerned that the risk of meat sales to the public by exempt operators exists, and that only a highly publicized incident involving uninspected meat would likely change the situation. **These concerns were also shared by the Investigation Unit of the Ministry,** and were evident in our review of Ministry files. For example, a meat store on a small Ontario farm offered uninspected poultry for sale which had been purchased from an exempt slaughterhouse.

Another situation being monitored by Ministry staff involves an operator suspected of raising, slaughtering and selling poultry to restaurants without inspection.

The Ministry intends to seek legislative amendments to remove inspection exemptions for all slaughterhouses. Also, when staffing permits, **the Ministry intends to**



Comments on Ministry and Crown Agency Audits

3.2 cont'd

begin regular routine monitoring of exempt plants on a random basis. An inventory of exempt plants done in 1986 identified approximately 100 such operators. An attempt was being made to establish a more up-to-date inventory.

Scheduling and Use of Personnel

The Ministry has the authority under the Act to set slaughtering schedules for all plants. In practice, each plant has regularly scheduled kill days which are negotiated with the Ministry. Inspectors are paid for a 40-hour week regardless of whether their schedule is full. When there is downtime on the schedule, the inspectors are required to be on call. We sampled approximately one third of the meat inspectors' timesheets for 1990:

- **On average, over 10 per cent of inspector time was charged as off-duty on-call time, varying in offices to as much as 25 per cent of available time. The cost of off-duty time was estimated to be at least \$700,000 per year.**
- When inspectors are used to capacity during certain days of the week, added per diem help may be hired. Per diem costs in 1990 exceeded \$500,000. On Fridays, inspectors are generally underutilized. Inspectors in one district were only utilized 40 per cent of total time on Fridays during 1990.

We felt that an overall improvement in scheduling would result in fewer instances of downtime and less use of per diem staff. In this regard, the Ministry should improve its monitoring of utilization and cost statistics, and be more assertive in exercising its rights under the Act to set slaughterhouse hours of operation.

DAIRY

Farm inspectors monitor the handling procedures and the quality of raw milk and cream at the farm and between the farm and the dairy. Dairy plant inspectors inspect dairy premises and equipment for sanitation and observe processing procedures to ensure equipment is functioning properly.

Improved Milk Testing and Analysis

The Central Milk Testing Laboratory is a modern, technologically advanced facility which supports the work of dairy inspection staff. Our 1985 report identified start-up problems in the facility's first year which were associated with the equipment's ability to measure results accurately. This generated many complaints from dairy farmers.

Our recent audit revealed that the Ministry has satisfactorily corrected these start-up problems and has improved the accuracy of the laboratory's testing. This has enhanced the laboratory's credibility such that it has been able to generate approximately \$300,000 in revenue annually by providing other laboratories—both within and outside the province—with milk measurement tests.



Agriculture and Food Livestock and Dairy Inspection

3.2 cont'd

Dairy inspection staff found the Laboratory invaluable in providing information on the quality and safety of milk from each of the province's producers. The Laboratory's reporting system highlights health problems that require more immediate follow-up. These reports are received by inspectors at their district offices. Follow-up matters may include excessive bacteria levels or mastitis, which is a common disease among dairy cattle. Early detection is important because mastitis affects the quality of the milk and the health of the herd.

Need for Better Inspection Focus and Coverage

Farm inspectors inspect bulk-tank trucks and driver procedures. The driver is the first quality control point in the system, ensuring that the milk is grade quality before allowing it into the bulk tanker. The driver also takes samples of each farm's milk for tests done at the Central Milk Testing Laboratory.

Farms are inspected for the sanitation of the stable and the milking equipment and for the cleanliness and health of the dairy herd. Potential problems include antibiotics in the milk, high bacteria levels, and added water.

Proper sampling procedures, such as adequate tank agitation, avoiding contact with the product, and adequate sample depth, are critical to producing reliable test results.

Our review of 4,200 inspection reports revealed no major points of concern for those farms that had been inspected. However, we learned that:

- The Branch traditionally attempted to inspect each dairy farm annually. **Under this approach, approximately 30 per cent of the Provinces 9,000 dairy farms were not inspected.** We acknowledge that on a risk-based approach not all farms may have to be covered each year. **At the same time, 60 per cent of farms sampled for which no problems had been identified had been inspected more than once in the last year.** Some of these farms had been visited up to five times.
- Only 50 per cent of the 230 bulk-tank operators in the North Eastern Region had been inspected in 1990 for adherence to the proper pick-up and handling routine. In the Central West Region, only 15 per cent of the 340 operators had been inspected.

The farm inspection section has recently implemented some changes to expedite the inspection process. In some areas inspectors are riding with bulk-tank drivers from time to time to inspect the tank truck, assess drivers' pick-up procedures and generally observe farm premises. This process allows an inspector to cover many farms in one day on a cost-effective basis and assess whether a full follow-up inspection is warranted.



Comments on Ministry and Crown Agency Audits

3.2 cont'd RESPONSE

The Deputy Minister responded to our audit report.

LIVESTOCK

Inadequate Enforcement of Slaughterhouse Regulations

"The emphasis of the Regulations and inspection policies has been directed toward the health of the livestock and the safety and quality of the meat product. In recent years as zoonotic disease (i.e., tuberculosis, brucellosis) has come under control, there has been a change of focus to environmental food-borne pathogens. Regulations were amended in 1989 and are now undergoing a comprehensive rewrite to reflect the actual risk areas.

"An annual plant audit program was instituted in 1988 in response to the 1985 Provincial Auditor's report. The new audit form directs attention toward higher risk areas. In recent months, detailed follow-up plans have been developed for all plants not in compliance. A pilot project is now under way to develop written sanitation protocols to be monitored by inspectors in all plants. Inspectors are instructed to suspend operations in cases of severe sanitation deficiencies. These measures are a more effective strategy in achieving improvements in the meat packing industry than conducting hearings to withdraw plant licences. Withdrawal of inspection services and the holding of hearings will continue to be utilized as appropriate to protect human health."

Inspection Initiatives on Exempt Slaughterhouses

"As a result of... monitoring and consulting with industry, the Branch is scheduling for 1992 a legislative review of the exemptions under the Meat Inspection Act. The proposal is that all meat sold in Ontario would require inspection. There is strong support for this initiative from the regulated industry as well as other food safety agencies."

Scheduling and Use of Personnel

"Regional market shifts, seasonal fluctuations and distances between plants are complexities inherent in staffing. For example, during the period covered by this audit, a deep recession resulted in significant reductions in slaughter operations [having an impact on] staff utilization in some parts of the province. Efforts are under way to more effectively deploy staff resources... [For example,] staff are being utilized to monitor processing operations on non-slaughter days... Inspectors are being utilized in other Branch programs [such as] sales barns [and] deadstock disposal.

"[The Ministry] is seen to assist small business endeavours by providing mandatory inspection services to these plants on the specific days requested. Failure to do so could place some operators at a competitive disadvantage. Competition between small rural abattoirs is keen and slaughter days are directly related to market and community sale barn days of operation... Reduction in off-duty time can constitute a measure of performance of Regional Supervisory staff in exercising legislative power to assign



Community and Social Services Surrey Place Centre

3.2 cont'd

slaughter times. While rescheduling would substantially improve staff utilization statistics, it would not assist the industry."

DAIRY

Need for Better Inspection Focus and Coverage

"If composition or quality problems are not identified, it is probable that 30 per cent of dairy farms in Ontario would not be, nor should be, inspected annually. Inspection coverage of dairy farms in Ontario has been, and continues to be, increasingly based on identifying milk quality and component problems through testing results generated by the Central Milk Testing Laboratory.

"The issue [of repetitive visits] is being addressed by work plans recently developed by staff on an area office basis. The work plan details will provide management and staff with sufficient information to monitor and measure work performance, and achieve the priorities identified in the Branch strategic plan.

"Inspection of bulk-tank [drivers] occurs, on a priority basis, as problems are identified by producers and/or by the computerized monitoring system. The Branch has adopted truck rides by staff as a cost-effective method of increasing inspection coverage for both bulk-tank [drivers] and dairy farms."

3.3

Surrey Place Centre, Ministry of Community and Social Services

Surrey Place Centre is a non-profit corporation funded primarily by the Ministry of Community and Social Services. It offers a broad range of non-residential services to approximately 1,000 developmentally handicapped children, adults and their families in the Greater Toronto Area. The Centre also conducts research and teaching.

During the 1991 fiscal year, the Centre received \$8.3 million in grants from the Ministry and employed 150 staff.

SUMMARY

SCOPE AND OBJECTIVES

We reviewed six of the Centre's eleven multi-disciplinary programs with expenditures totalling \$5.6 million.

Our audit objectives were:

- to assess whether the Ministry adequately monitored the Centre's expenditures of funds; and
- to determine whether the Centre monitored the appropriateness of care and services.



Comments on Ministry and Crown Agency Audits

3.3 cont'd

CONCLUSIONS AND FINDINGS

FUNDING

The Ministry had not adequately monitored the Centre's expenditure of funds.

- In the programs we reviewed, we estimated that the Centre could have saved over \$750,000 annually without adversely affecting client service.
- The Ministry had not recovered over \$1.2 million of surplus and interest income retained by the Centre.

CARE AND SERVICE

The Centre monitored the appropriateness of care and services provided to its clients. For example:

- the Centre has made concerted efforts to limit the use of intrusive treatment procedures; and
- surveys conducted by the Centre indicated that, overall, clients were satisfied with its Behaviour Management Program.

COMMENTARY

FUNDING

Significant Cost Savings Identified

For the 1991 fiscal year, salary and benefit costs totalled \$7.0 million, or approximately 85 per cent of the Centre's total operating costs of \$8.3 million. We assessed the appropriateness of costs for each of the six programs we reviewed, and concluded that the costs for three of the programs—administration and support services, access, and medical services—were too high. We estimated that the Centre could save over \$750,000 annually without adversely affecting client service.

Administration and Support Services

Program costs for the 1991 fiscal year totalled \$1.9 million or over 20 per cent of the Centre's total expenditures. We estimate that the Centre could save over \$400,000 per year in salary and benefit costs, as follows:



Community and Social Services

Surrey Place Centre

3.3 cont'd

| | |
|---|------------------|
| Houskeeping: Costs of approximately \$200,000 were twice as high as those for comparable buildings | \$100,000 |
| Accounting and Human Resources: Number of staff was almost double that of a similar agency with a larger budget | \$210,000 |
| Office supplies and services: Three full-time staff were employed to handle receiving, photocopying and mail delivery. One person is sufficient at other agencies | \$60,000 |
| Catering: We questioned the need for a full-time employee to serve snacks during staff breaks and meetings | \$30,000 |
| Total projected savings | <u>\$400,000</u> |

Additionally, we noted that approximately 80 other non-profit agencies with annual expenditures totalling \$100 million serve the disabled and developmentally handicapped in the Toronto area. We compared the Centre's costs with 15 of these agencies with expenditures of \$65 million. We found that the Centre's administrative and support services costs of 20 percent of total expenditures were similar to two large agencies with expenditures exceeding \$32 million. In contrast, the thirteen other agencies spent only ten per cent of their funds on such services.

The Ministry's area office acknowledged that administration and support services costs for the large agencies were high, and that it planned to review the appropriateness of such costs.

Access

Clients are admitted to the Centre through its Access Program. Program staff collect client information, determine the clients' needs and refer them to appropriate services within the Centre. During the 1991 fiscal year, the program employed six staff at a cost of \$260,000.

We noted that program staff were collecting unnecessary information and duplicating the work of other departments. For example, many of their duties such as interviewing clients, family and referring professionals and preparing progress notes were also performed by the Case Management Department. We were advised that the Centre had already developed plans to discontinue this program. The revised admitting function will require only two staff, resulting in savings of over \$150,000 per year.

Medical Services

The Medical Services Program provides medical and psychiatric assessments and pharmaceutical services to clients of the Centre. It employs eight staff consisting of four physicians, three full time and one part time, two support employees and two part time pharmacists. The program also employs other physicians on a fee-for-service basis as required. For the 1991 fiscal year, program expenditures totalled \$670,000.



Comments on Ministry and Crown Agency Audits

3.3 cont'd

In examining medical services for 1990, we found that on average, each staff physician had conducted fewer than two assessments per week. Each assessment takes approximately two hours to complete. In one case, a full-time physician had conducted no assessments during a seven-week period. We estimated that \$180,000 could be saved by reducing staff levels.

We also noted that clients make limited use of pharmaceutical services provided at the Centre. The cost of dispensing each prescription is \$30, or three times higher than that at outside pharmacies. The Centre could save \$20,000 by closing the pharmacy.

Interest Income and Surpluses Not Recovered

The Centre is operated under the terms of an agreement with the Ministry. It receives its operating grants quarterly, in advance, from the Ministry.

When actual expenditures are less than grants received, Ministry policy generally requires recovery of the surplus. However, under the agreement, the Centre is allowed to retain any surplus not exceeding five per cent of the approved budget, provided there is Ministry approval of plans for disposing of the surplus. Additionally, Ministry policy requires recovery of interest income generated from funds provided by the Ministry.

Our audit revealed that the Centre had not complied with Ministry policy. **Over a three-year period ending March 31, 1990, it retained:**

- **\$850,000 in surpluses** without Ministry approval of plans for disposing of the surpluses; and
- **\$350,000 in interest income** generated from Ministry funds.

Additionally, of the \$1.2 million in total retained by the Centre, the Centre had spent \$450,000 on capital purchases without the required Ministry approval. The remaining \$750,000 is being held by the Centre in cash and short-term investment.

In last year's audit, we reported that the Ministry had not recovered surpluses and interest income totalling \$3.4 million from two agencies for the developmentally handicapped. In the current year, the Ministry's Toronto area office also informed us of another agency that has retained a surplus of approximately \$850,000.

These findings suggest that the Ministry may not have recovered substantial surpluses and interest income being held by agencies across the province.

CARE AND SERVICE

Intrusive Procedures Adequately Controlled

In limited circumstances, the Centre approves the use of intrusive procedures in the treatment of developmentally-handicapped persons with behavioural problems.



Community and Social Services

Surrey Place Centre

3.3 cont'd

Intrusive procedures are defined as actions that result in restriction of freedom of movement; reduction of visual, auditory or physical stimulation; or pain or discomfort.

The use of intrusive treatment procedures is a controversial issue among professionals in the behavioural field. The *Child and Family Services Act* contains provisions relating to intrusive procedures. However, these provisions have yet to be proclaimed into law.

In the past two years, the Centre has made concerted efforts to ensure that **intrusive procedures are used only after alternative, non-intrusive measures had been considered.** We examined a representative sample of treatment plans over the last two years. All treatment plans proposing the use of intrusive procedures were approved by the Centre's Extraordinary Measures Multi-Disciplinary Review Committee, an independent committee made up of senior staff members. As of December 1990, we noted that only two out of 164 active cases involved the use of intrusive treatment procedures.

Client Satisfaction Measured

The Centre's Behaviour Management Program employs approximately 30 staff, the majority of whom are behaviour therapists. The program provides training to families and other service providers in the treatment of developmentally-handicapped persons who are exhibiting behavioural difficulties. The treatment is designed to reinforce positive behaviours and eliminate negative behaviours.

We noted that the Centre had recently conducted surveys to measure the level of client satisfaction with the program. For example, the Family Behaviour Program staff contacted all 53 families receiving services from the Centre. Of these, 42 families responded by completing a survey questionnaire asking, for example, whether a client's behaviour had improved since receiving training and whether adequate training had been provided by therapists. **Overall, the families indicated that they were more than satisfied with this program.**

RESPONSE

The Deputy Minister of Community and Social Services responded to our audit report.

FUNDING

Significant Cost Savings Identified

"The Ministry is in the process of analyzing each program/service area in consultation with Surrey Place Centre, and will use this supporting information from the Provincial Auditor as part of the review with the Agency.

"[The Ministry] is involved in a process which began in 1989/90, which is aimed at making the entire budget and financial process more effective, timely, and emphasizing accountability, reporting, and monitoring.



Comments on Ministry and Crown Agency Audits

3.3 cont'd

"Achievements to date and for implementation by April 1, 1992 include:

- more timely approvals;*
- more timely completion of agreements;*
- budget and legal agreements aggregations;*
- clear process on APERs and audited statements;*
- clear process for surplus reconciliation;*
- quarterly financial reporting by agencies; and*
- clearer position on areas such as central administration, purchased services, personal needs."*

"[The Access Program] no longer exists as a result of a planned reorganization done in co-ordination with the Ministry. This re-evaluation process began in September 1989 with the objective of assessing existing services in comparison to existing and future needs in the agency and community."

"The Ministry has been assessing [medical services] and other service areas against costs and the appropriateness of [Ministry] funding. This has been under way since 1989 as part of the joint consultation approach with the agency relative to the latter's strategic planning process and organization revision plan. Clarification is required on the fact that the current pharmacy is staffed by two part-time pharmacists who work a couple of hours per week. The total cost of the program is \$35,000."

Interest Income and Surpluses Not Recovered

"[The Ministry] accepts the audit statement, and... will look at adherence to Ministry policies."

"Although [the Ministry] is not aware of the two agencies [for the developmentally handicapped with surplus and interest income totalling \$3.4 million], the Ministry will look at adherence to policy."

"We are aware of [the agency with a surplus of approximately \$850,000], and it would be the Ministry's expectation that retention of a surplus has approval of an Area Office."



Environment Waste Management

3.4

Waste Management Monitoring and Funding, Waste Management Branch, Ministry of the Environment

The Waste Management Branch is responsible for regulating and monitoring the management of waste in Ontario. In the 1991 fiscal year the Branch had expenditures of \$65.3 million.

SUMMARY

SCOPE AND OBJECTIVES

Our objectives were to assess the adequacy of the:

- efforts to monitor the generation and disposal of hazardous and liquid industrial wastes; and
- administration of grant programs.

Our audit included interviews with representatives from municipalities, environmental advocates and other interested groups including the Ministry's Municipal Industrial Strategy for Abatement (MISA) Committee.

CONCLUSIONS AND FINDINGS

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Efforts to monitor the generation and disposal of wastes were found to be less than satisfactory.

- The Ministry did not ensure that all wastes shipped were received at the intended disposal facilities.
- The Ministry had not followed up discrepancies noted in over 70 per cent of the exception reports sampled.
- Some generators were discharging waste into sewers.
- Generators of waste were not all registered as required by legislation.

GRANTS

Grant programs were being administered in a satisfactory manner.

OTHER MATTER

- Only 200 of the 700 closed landfill sites requiring priority inspections had been inspected to determine whether they posed a hazard to the surrounding area.



Comments on Ministry and Crown Agency Audits

3.4 cont'd BACKGROUND

The Waste Management Branch is responsible for a variety of functions including:

- maintaining a system to monitor the generation, transportation, and disposal of hazardous and liquid industrial wastes; and
- evaluating technologies, and providing technical and financial assistance to municipalities, institutions and businesses to divert wastes from landfill sites by reducing, reusing, and recycling waste material.

The Branch's activities are mainly influenced by Regulation 309 of the *Environmental Protection Act* (the Act) which contains standards for the storage, transportation and destruction of wastes.

COMMENTARY

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Effective in 1986 the Act requires generators of hazardous and liquid industrial wastes, such as the solvents benzene and xylene, to register with the Ministry. They must declare the type and quantity of waste they are generating or expect to generate.

All generators of waste have the option of treating and disposing of the wastes on site or shipping them to a licensed disposal facility. Those wishing to handle the wastes on site should have their treatment facilities licensed by the Province. Those not having an on-site facility are required to ship wastes to another licensed facility through a licensed carrier, and are required to manifest or list the contents of the shipment. There were approximately 1,200 licensed carriers and 1,100 licensed receivers. Approximately 2,000 of the 22,000 generators registered with the Ministry treat their wastes on site, while the balance ship their wastes to disposal facilities.

The manifest system is co-ordinated and managed by the Waste Management Branch. The Act requires the generators, carriers and receivers of wastes to inform the Ministry of the movement of wastes, using a specially designed form. The form has three parts containing information on each of the three parties (generator, carrier and receiver). Copies of the completed forms are sent to the Ministry by the generator and the receiver to ensure that what was shipped was received.

Poor Control over Movement of Waste

No Reconciliation of Waste Shipped and Received

The Ministry did not routinely match the copies of the manifest forms forwarded by the generator and the receiver. Consequently, the Ministry could not ensure that wastes shipped were actually received by the designated facility. A special computer-generated report prepared at our request indicated that in 1990 there were over 4,000 unmatched copies of manifest forms, a 76 per cent increase over 1989. The unmatched copies represented approximately 1 per cent of manifest forms received.

We acknowledged that increases in unmatched copies did not necessarily mean that wastes were being diverted from the intended disposal facilities. However, without



Environment Waste Management

3.4 cont'd

appropriate identification and follow-up procedures, the deterrent aspect of the process suffers and the risk of improper waste dumping increases.

We were advised by the Waste Management Branch that a staff member had been assigned to deal with this issue. Also, a new computer system with customized software was being developed by the Branch.

Lack of Follow-up on Exception Reports

Data on the completed manifest forms is entered into a computer. The computer produces an exception report which notes the discrepancies occurring when generators are not registered, carriers and receivers are not licensed, or information on the form is incomplete. On average 3,000 discrepancies occur each month.

The regional offices which work with the Waste Management Branch in following up discrepancies felt that the exception reports were untimely, reaching their offices several weeks after month end. Consequently, in most instances the violation would have taken place well over a month before. As the time limit for issuing provincial offences tickets is only 30 days, many violations could not be ticketed.

We reviewed procedures for the handling and follow-up of exception reports using a sample from four regions between May and December 1990. **Our review revealed that over 70 per cent of exception reports were not being followed up by the Ministry to account for discrepancies.**

Reasons given for the inadequate follow-up were lack of staff and the significant increase in the number of generators. Generators had risen from 3,000 in 1986 to over 12,000 in the Central Region alone, and there had been no increase in staff. Therefore, the Ministry informally followed up those discrepancies which they believed involved serious violations and repeat offences.

Unlicensed Shippers

Individuals in the industry expressed concern that unlicensed shippers were in some cases obtaining blank manifest forms issued to licensed carriers. **While the Ministry kept records on the serial numbers of the forms issued to carriers, the forms were not checked to ensure they were used by the proper licensed carriers.** We noted some cases where manifest forms were used by a carrier other than the one originally designated.

Possession of such forms could enable unlicensed shippers to carry hazardous waste and avoid being detected by law enforcement agencies. Since the unlicensed shippers might not have the necessary training and experience to handle hazardous waste, the risk of accidental spills could increase.

Better Monitoring Required

In 1989 the Ministry surveyed over 600 registered generators that had not manifested in 1988. In 1989 Ministry staff visited a number of sites, and conducted telephone surveys of other generators.



Comments on Ministry and Crown Agency Audits

3.4 cont'd

For over 80 per cent of the generators surveyed the reasons for not manifesting included registration for contingency purposes only or for one-time generation, or storage versus shipping of waste. **However, approximately 17 per cent of those surveyed were believed to be either discharging into sewers or for various reasons possibly not required to register.**

Since 1989 no similar survey has been conducted by the Ministry. A computer report was generated at our request and indicated that approximately 25 to 30 per cent of registered waste generators had not manifested since registration.

Waste Generators Not Registered

Ensuring that all generators of wastes have registered with the Ministry is difficult, and can only be accomplished by having Ministry staff actively look for factories, workshops or other establishments likely to generate wastes. **However, Ministry staff stated they had made no concerted effort to look for generators who had not registered.** The staff indicated that, given the level of public awareness and their general vigilance, most generators would have registered.

However, in 1990 the Ministry sponsored a study by an external consultant to review the management of wastes by the dry cleaning industry. **The study indicated that approximately 400 or 30 per cent of the dry cleaners in the province were not registered.**

GRANTS

One of the functions of the Waste Management Branch is to evaluate technologies and provide financial assistance to municipalities and private industries for various waste management programs. The Branch provides grants to municipalities on a cost-sharing basis. In the 1991 fiscal year, approximately \$48 million was provided to municipalities with one program, the Municipal Recycling Support (Blue Box) Program, accounting for \$23 million. Industrial grants for the 1991 fiscal year amounted to \$6 million.

The major municipal program, the Municipal Recycling Support Program, provides operating cost grants (for up to five years), capital cost grants, cost sharing for household "blue boxes", promotion and advertising, education, pilot demonstrations, and feasibility studies. The operating cost grants progressively decline from a high of 50 per cent in the first year to 10 per cent in the fifth year.

Adequate Controls over Municipal Grants

We reviewed 40 grant payments from various municipal grant programs, namely the Municipal Recycling Support Program (\$23 million), the Municipal Waste Reduction/Reuse and Recovery Program (\$6 million), and the Financial Assistance and Waste Management Improvement Programs (\$16 million). We examined Ministry records pertaining to grant approvals and payment authorizations and found that



Environment Waste Management

3.4 cont'd

grants were being administered in a satisfactory manner. More specifically:

- grants were paid in accordance with Ministry policies and agreements with individual municipalities;
- adequate controls were in place to ensure that all payments were calculated accurately and appropriately authorized; and
- the Branch had arranged for the Municipal Audit Bureau to conduct periodic audits of the municipalities receiving grants.

OTHER MATTER

Lack of Closed Landfill Site Inspections

A team of hydrogeologists in the Waste Management Branch and Regional Office staff are jointly responsible for investigating landfill sites that was closed prior to 1971. Prior to 1971, the construction and operation of landfill sites were not regulated. Consequently, features such as clay linings along the periphery of the sites were generally not constructed. Therefore, if any hazardous substances had been deposited in the landfill sites, there is a strong possibility of leachate contamination in the surrounding area.

The Ministry had identified approximately 2,400 landfill sites across the province. The sites had been categorized in order of the potential hazards they posed to the surrounding area. The two major criteria used for categorizing were: the type of wastes, such as toxic chemicals, that could have been deposited in the sites; and the nearness of the sites to population centres, such as subdivisions or shopping centres. Over 700 sites had been classified as most in need of priority reviews.

At the time of our audit, only 200 of the 700 priority sites had been inspected to determine the need for further detailed investigations of sub-soil conditions and leachate migration through the underground water table. In addition, only ten sites had been subject to detailed investigations with the help of external consultants. The results of such investigations had generally been positive in that no serious environmental problems were noted, although in one case a methane gas monitoring system had been recommended to the municipality.

The Ministry had no formal plan to inspect and investigate any more sites. However, the Ministry believed more sites would be investigated and was continuing its efforts to identify sites that might require detailed investigations.



Comments on Ministry and Crown Agency Audits

3.4 cont'd RESPONSE

The response from the Deputy Minister included the following comments.

HAZARDOUS AND LIQUID INDUSTRIAL WASTE

Poor Control over Movement of Waste

No Reconciliation of Waste Shipped and Received

"Regulation 309 imposes the responsibility of proper waste management on the generators, who are obliged to use licensed carriers and receivers for the transportation and disposal of their waste. The Regulation also requires waste carriers to keep a copy of the Certificate of Approval (C of A) that authorizes the transportation of waste in their vehicles. The generator could ascertain if the carrier is licensed for transporting a particular waste class by asking to see the copy of the C of A or verifying the status of the carrier with the Ministry's regional/district offices.

"The 4,000 unmatched copies of manifest forms account for only approximately 1% of the total number of manifests received. As acknowledged in the report, these do not necessarily mean that wastes are diverted from proper disposal. A branch staff member has recently been placed on special assignment to deal with this issue."

Lack of Follow-up on Exception Reports

"The original purpose of the exception report was to help improve the quality of the generator, carrier and receiver database; and in particular to assist regional staff in identifying those companies that appear to be repeatedly problematic and to institute corrective measures.

"Exception reports are now generated on a bi-weekly basis and are distributed to the regions for follow-up as soon as they are produced. Exception incidences now average 2,000 per month.

"The Ministry is aware of the deficiencies raised by the auditor. A new computer system referred to by the auditor will incorporate features to assist in categorizing exceptions for priority follow-up."

Unlicensed Shippers

"The manifest is a national form and is available to all other provinces. It is conceivable that unlicensed shippers could obtain blank manifests from various sources. Ministry staff are currently investigating the viability of incorporating special features into the proposed new computer system to facilitate the detection of this potential practice. Staff are also examining options to enter the vehicle/trailer plate registration number on the manifest into the computer system to facilitate the detection of unlicensed shippers."



Environment Waste Management

3.4 cont'd

Better Monitoring Required

"Reasons for companies not manifesting include wastes being placed in storage, process change (recycle or reuse), one-time generation, and over-estimation of waste quantities.

"Discharge into sewers is currently regulated by the respective municipalities. The Ministry, through the Municipal Industrial Strategy for Abatement (MISA) program, is developing a Regulation which will require municipalities to implement a sewer-use program to control discharges from industries into sanitary sewers."

Waste Generators Not Registered

"Waste generators such as nursing homes, dentists' and doctors' offices, retail motor vehicle service stations, and generators of small quantities of agricultural and processed organic wastes, are exempt from the generator registration process. However, the exemption from registration does not relieve the generators of their responsibility to properly manage their wastes.

"The Ministry is endeavouring to complete the registration of non-exempt waste generators through contacts with various trade associations and the individual companies. The Ministry is currently receiving on average 130 generator registration reports per week, of which 45% are new applications."

OTHER MATTER

Lack of Closed Landfill Site Inspections

"Since 1985/86, systematic in-house examinations of closed landfill sites have taken place. The site reviews are prioritized for further investigations jointly with the regional offices.

"In addition to the 200 on-site inspections conducted, a further 173 closed sites were inspected by Ministry personnel and have been given a no problem classification. This classification designates a site which has no foreseeable hazards to human welfare or the environment. The Ministry has also performed another 77 site inspections of closed landfill sites located along the Don River Watershed (36), the Humber River Watershed (19), the the Thames River Watershed within the London, Ontario, area (22)."

Editorial Note: At the time of audit we were advised by the Ministry that the additional 250 sites mentioned were subjected to in-house examination as opposed to physical on-site inspection.

"The Ministry has developed a 'Proposed Plan of Action for a Program of Closed Waste Disposal Site Investigations' with four main objectives:



Comments on Ministry and Crown Agency Audits

3.4 cont'd

1. *Review the information relating to the above 700 sites from the Waste Disposal Site Inventory and prepare a list of sites for each region by their classification.*
2. *Review the list from Item 1 with the Regional staff.*
3. *From the review of Item 2 prioritize sites in need of further study and complete this work over the next three years.*
4. *Conduct detailed hydrogeological investigations at those sites identified under Item 3 (estimated at 8 to 10 sites per year)."*

3.5

Deposit Institutions Division, Ministry of Financial Institutions

The Deposit Institutions Division of the Ministry of Financial Institutions is responsible for the regulation of loan and trust corporations, credit unions, co-operative corporations and mortgage brokers. The Division's expenditures for the 1991 fiscal year totalled approximately \$7 million.

SUMMARY

SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of the Ministry's monitoring of credit unions and mortgage brokers for compliance with legislation.

CONCLUSIONS AND FINDINGS

The Ministry's monitoring to ensure compliance with legislation was:

- **satisfactory for credit unions.** However, problems persist in resolving industry deficits which currently amount to approximately \$100 million, and in controlling imprudent lending activities; and
- **less than satisfactory for mortgage brokers.** Changes to current legislation are urgently needed as the mortgage broking industry has grown in size and sophistication since 1975, the last time any major changes were made to legislation.



Financial Institutions

Deposit Institutions

3.5 cont'd

COMMENTARY

CREDIT UNIONS

There are over 650 credit unions in Ontario with approximately \$11 billion in assets. The credit union industry is monitored by the Ministry in conjunction with the Ontario Share and Deposit Insurance Corporation (OSDIC), and the three credit union leagues: Credit Union Central of Ontario; La Federation des caisses populaires de l'Ontario Inc.; and L'Alliance des caisses populaires de l'Ontario Ltee.

The primary function of the credit union leagues is to act as the central banker and provide ancillary services to league members.

OSDIC was established to insure credit union members against loss of part or all of their shares and deposits up to a maximum of \$60,000. It collects premiums from credit unions to meet its requirements for insurance funding and administrative costs. OSDIC also acts as the liquidator in dissolving unsuccessful credit unions.

The Ministry spends approximately \$2 million annually and employs 30 staff to carry out its responsibilities under the *Credit Unions and Caisses Populaires Act*.

Improvements Noted

Overall, the industry is now healthier and more stable than at the time of our last audit in 1986. As at December 31, 1990 the industry had a net surplus of approximately \$350 million compared to \$90 million in 1986.

We noted a number of improvements. For example:

- The Ministry's role in monitoring and regulating credit unions has now been clearly defined and is accepted throughout the industry.
- The Ministry's examination process is effective in identifying contraventions of the Act and detecting fraud.
- Examination of file documentation and review by management are now satisfactory.
- The Ministry is promoting compliance with the statutory filing requirements by imposing appropriate penalties.
- There are fewer delays in credit unions submitting annual returns and financial statements.

Unresolved Issues

Industry Deficits

In 1986, OSDIC had a surplus of just under \$1 million and there were 100 credit unions with an accumulated deficit of \$79.4 million. Since then, some credit unions have recovered, while others have been sold, dissolved or are carrying on business



Comments on Ministry and Crown Agency Audits

3.5 cont'd

under the direction of OSDIC. As at December 31, 1990 OSDIC and approximately 30 active credit unions had accumulated deficits of \$90 million and \$10 million respectively.

In May 1987, the Province approved a loan guarantee of \$75 million for OSDIC. This was increased to \$95 million in March 1990. OSDIC has used \$75 million of the guarantee to obtain financing to fund part of its accumulated deficit.

In May 1990, the Ministry issued a proposal to resolve the deficit issue. The proposal, called the "family proposal," is premised on the establishment of "families" of credit unions as a basis for mutual help in dealing with problem situations and minimizing and providing funding for future deficits. It also called for the immediate funding of deficits by the credit union industry and for the release of the Government from all related guarantees. In return for the release, the Government is committed to providing subsidies of approximately \$20 million over four years to OSDIC.

It was expected that, by June 30, 1990, the "family proposal" would have been accepted by the industry. However, due to a lack of consensus among industry participants, the acceptance of the proposal is in doubt. One major obstacle is the opposition from unaffiliated credit unions to either form their own "family" or join an existing one.

Lending Activities

In the last three years, the Ministry has investigated approximately 20 troubled credit unions. Nine of these had either been dissolved or were being operated under the direction of OSDIC. Over \$20 million in losses had accrued to OSDIC in respect of these credit unions.

We reviewed the investigation files and noted that **the Ministry had identified imprudent lending practices as one of the major factors affecting troubled credit unions.** These practices included loans to related parties, commercial loans and speculative lending.

Related Party Loans

In three cases, related party loans were a contributing factor in the failure of the credit unions. For example in the case of one credit union:

- loans to the general and loans managers were in excess of the credit union's by-law limit of \$25,000;
- a mortgage loan of over \$40,000 was advanced to the President. This loan was made without proper approvals, and was \$2,000 in excess of the value of the property.

Ministry and industry officials agree that the related party rules have to be clarified and specific penalty provisions included in the legislation. The Ministry has drafted proposals for strengthening related party rules for discussion with industry officials.



Financial Institutions Deposit Institutions

3.5 cont'd

Commercial Loans

In eight cases, commercial lending in excess of authorized amounts had contributed to the financial problems of the credit unions. For example:

- one credit union's by-laws limited loans to any one person for commercial or business purposes to \$75,000. Fourteen loans exceeded this amount, ranging from \$78,000 to over \$700,000;
- another credit union's commercial loans to corporate and partnership members totalled approximately \$7 million, over twice the amount authorized by its by-laws.

Under the Act, persons responsible for approving loans not authorized by the Act, regulations or the credit union's by-laws, may be held liable for any losses incurred on the loans. However, no prosecutions have been attempted by the Ministry under the Act.

Speculative Lending

In two cases the Ministry raised concerns about speculative loans, considered by the credit unions as legitimate investments:

- One credit union, with \$16 million in assets, engaged in lending by way of "bridge loans", being mortgage loans on properties purchased for resale. The credit union regarded these loans, totalling \$4.5 million, as "investments" and therefore not subject to the statutory restrictions on mortgage lending. The Ministry found that many of these loans were in arrears. The credit union subsequently failed at a cost to OSDIC of approximately \$4 million.
- Another credit union, with \$350 million in assets, has been lending money by way of mortgages on commercial real estate to non-members. This credit union also characterizes these loans as "investments". These "investments" amount to \$75 million or over 30 per cent of the credit union's loan portfolio. The Ministry is concerned about the credit union's investment practices and has obtained a legal opinion. The issue has yet to be resolved.

In December 1988, the Ministry completed a "white paper" entitled "A Policy Framework for the Revision of the Credit Union and Caisses Populaires Legislation and Administration". One of the issues covered related to prudent lending and investment. However, this paper was never finalized for release to the industry for consultation, nor tabled in the Legislature.

We were advised that the legislation is currently under review.

MORTGAGE BROKERS

Most buyers of commercial and residential real estate apply directly to financial institutions for mortgages. Others, however, apply through mortgage brokers, who



Comments on Ministry and Crown Agency Audits

3.5 cont'd

are registered under the *Mortgage Brokers Act* to arrange financing through private investors or lending institutions.

Currently, there are approximately 1,000 registered mortgage brokers in Ontario compared to only 500 in 1987. In 1990, the brokers arranged an estimated \$10 billion in mortgage financing.

The Ministry is responsible for the regulation of the Act which provides for registration, the handling of public complaints, inspection, and investigation of brokers who do not comply with the Act.

The Ministry spends approximately \$500,000 annually, and employs eight staff, to carry out its responsibilities under the Act.

Ineffective Monitoring of Mortgage Brokers' Activities

The Ontario Mortgage Brokers Association has expressed a desire to become self-regulating. However, because mortgage brokers are not required to become members of the Association, the industry relies on the Ministry to ensure that brokers conduct their business with honesty and integrity. The Ministry carries out its responsibilities by performing desk reviews of audited financial statements, field examinations, and formal investigations of complaints and violations under the Act.

During the 1991 fiscal year, the Ministry performed 550 desk reviews of audited financial statements, 230 field examinations and 120 investigations. More investigations were undertaken as a result of outside complaints than the Ministry's own field examinations.

There is heightened public concern over the activities of mortgage brokers and widespread publicity because several brokers are currently in receivership or under investigation by the Ministry. Investors who have suffered losses have looked to the government for recovery.

Given the Ministry's responsibilities, **we question the effectiveness of the Ministry's monitoring procedures.** For example:

- The activities of one broker, registered in October 1987, were investigated by the Ministry several times in 1988 and 1989 for misleading advertising.

In September 1989, the Ministry reviewed the broker's involvement in arranging a \$36 million first mortgage on a shopping centre development appraised at \$83 million. The Ministry concluded that losses to investors were unlikely.

In early January 1990, the Ministry discovered that the broker was preparing to engage in a sales campaign for the developer of the shopping centre for additional mortgage financing of \$90 million. The value of the development had apparently now been appraised at \$170 million. The Ministry believed this was a misrepresentation of the true value of the project. It therefore considered initiating legal action against the mortgage broker and the developer.



Financial Institutions Deposit Institutions

3.5 cont'd

However, on January 19, 1990 the developer, who had several other projects under construction, was placed into receivership. Potential losses to investors are estimated to be as much as \$100 million. The court-appointed receivers are conducting an investigation. The broker was involved with the developer in several projects. Consequently, the investigation may include a review of the broker's records to assess the representations which were made to investors.

- The January 1988 audited financial statements of another mortgage broker showed a \$4.6 million bank overdraft. A September 1988 Ministry inspection report noted that the broker had a very sophisticated, highly computerized and well controlled operation. A concurrent examination of an associated company noted that it, too, was an excellent company.

The January 1989 audited financial statements revealed that the broker had incurred net losses of \$1.1 million. An inspection conducted in April 1989 by the Ministry indicated only one minor infraction on the mortgage files examined. However, 25 per cent of the broker's mortgage portfolio was in default. Also, a subsidiary's default rate was over 40 per cent.

In July 1989, the broker was forced into receivership and eventually into bankruptcy. Potential client losses were estimated at \$15 million.

The Ministry is taking steps to ensure that future examinations are more focused, and that greater attention is paid to situations which offer the greatest risk to the public.

Responsibilities Need Clarification

No major changes have been made to the *Mortgage Brokers Act* since 1975. The Act was originally designed to protect borrowers through proper disclosure. Lenders were not seen to be at risk because their funds were invested in mortgages with real estate as collateral.

However, the mortgage broking industry has grown in size and sophistication. One major change in the industry has been "syndicated mortgages" where a broker attracts several lenders to finance major development projects. Funds raised could be in excess of the fair market value of the development. Consequently, the real estate collateral would not be sufficient to fully compensate lenders if the developer failed.

Under the Act there is no provision for syndicators to issue a prospectus outlining the details of investment to lenders. Consequently, lenders are not afforded the same protection as investors under the *Securities Act*.

The Ministry may be exposed to potential legal action as a result of perceived failure to adequately regulate brokers registered under the *Mortgage Brokers Act*. In the example of the broker's bankruptcy cited earlier, the Ministry paid \$1.5 million to defray some of the costs of the trustee of the bankrupt mortgage broker. In exchange, investors agreed not to proceed with law suits alleging that the Ministry was negligent in carrying out its regulatory function. There is some evidence to suggest that the investors would have sued the Ministry, although the trustee had noted that there were no grounds for a lawsuit against the Ministry.



Comments on Ministry and Crown Agency Audits

3.5 cont'd

Two submissions from the Ontario Mortgage Brokers Association, one in 1981 and one in 1982, as well as a 1987 consultants' report, recommended changes to the *Mortgage Brokers Act*. In 1988, a new Act was drafted but never finalized.

To restore confidence in the industry and satisfy public expectations, changes to the current Act are urgently needed.

RESPONSE

The Deputy Minister of Financial Institutions responded to our audit report.

CREDIT UNIONS

"The deficits referred to in the Audit Report are a result of losses that were incurred in the early 1980s. Deposit insurance rates payable by all credit unions and caisses populaires have been established, whereby the entire deficit is scheduled to be repaid within six years. The industry has gained tremendous strength over the last three to four years, and has become a major force in Ontario's financial services sector with very few deficits incurred during that period."

MORTGAGE BROKERS

"We are now in the process of reviewing the provisions of the Mortgage Brokers Act and its regulations, in light of changed nature of mortgage broking activities. It is the Ministry's expectation that the issues raised by the Provincial Auditor will be dealt with in this process."

"In light of the significant difficulties encountered recently in the mortgage brokers sector, the Division has reallocated resources to more effectively monitor the sector through assignment of staff at the Loan and Trust Branch and Credit Union and Caisses Populaires Branch to assist in mortgage broker reviews at peak periods; and, establishing a Forensic Review Unit which can quickly conduct an in-depth analysis of problem situations, so that regulatory steps, if warranted, can be taken through the Courts and in other forums to halt activities prejudicial to the public."

"The Audit Report indicates that: 'The Ministry may be exposed to potential legal action as a result of perceived failure to adequately regulate brokers registered under the Mortgage Brokers Act.' We are not aware of any legal basis for such legal action, and would be grateful to receive and review any legal opinions on this topic which are available from the Provincial Auditor."



Health Hospital Operations

3.6 Institutional Health Program, Ministry of Health

The Hospitals and Related Facilities Activity of the Ministry of Health's Institutional Health Program is responsible for the operational and capital funding of public hospitals and related facilities. For the 1991 fiscal year, expenditures for this Activity totalled \$7.1 billion.

SUMMARY

SCOPE AND OBJECTIVES

Our audit was conducted at the Community Hospitals Branch and Teaching and Specialty Hospitals Branch at the Ministry of Health and focused on the Branches' monitoring of the transfer payment of \$6.4 billion of operating grants to 221 public hospitals. This transfer payment represented approximately 90 per cent of the Activity's expenditures.

Our audit objectives were to:

- determine the status of the Ministry of Health's framework for hospitals to account for their management of operating funds; and
- assess the adequacy of the Branches' monitoring of hospital operations.

CONCLUSIONS AND FINDINGS

ACCOUNTABILITY FRAMEWORK

While the Ministry had prepared an accountability framework, many of the aspects of this framework cannot be implemented without changes to the *Public Hospitals Act*, which is currently being reviewed.

OPERATION OF BRANCHES

We concluded that the Branches were operating in a less than satisfactory manner:

- Bed closures at hospitals were not approved or adequately monitored by the Ministry.
- Minimal time was spent monitoring 168 hospitals which received \$4.5 billion in Ministry funding.
- Accreditation reports, aimed at ensuring that systems are in place to manage all hospital aspects, were not reviewed by the Ministry.
- Hospital surpluses of \$30 million were not reviewed for possible recoveries.
- Additional funding of \$45 million was forwarded to hospitals without assessing the financial resources in their hospital foundations.



Comments on Ministry and Crown Agency Audits

3.6 cont'd

- Inter-related activities of many hospitals and their foundations were not monitored.

We also found that further improvements were required in the follow-up of complaints received from the public about hospitals.

BACKGROUND

The *Public Hospitals Act* and Regulations govern the operation of the 221 public hospitals in Ontario. The funding of these hospitals is governed under the *Health Insurance Act* and Regulations. The Ministry provides operational funding to hospitals in accordance with the Business Oriented New Development (BOND) plan, and transitional funding.

Under BOND, hospitals are permitted to retain any surplus on operations, but must absorb their deficits. BOND funding consists of a base allocation (adjusted for inflation), growth (increased utilization of services), life support (specific services defined by the Ministry), and approved new and expanded programs.

Under transitional funding, the growth portion of the BOND funding is calculated based on a hospital's clinical case load. Transitional funding also includes an equity fund (established to address and correct the imbalances and inequities in funding levels among hospitals) and an incentive fund (established to provide up to 100 per cent funding to hospitals for projects which promote the effective management of hospital resources).

Hospitals receive approximately 85 per cent of their revenue from the Ministry of Health. Other sources of revenue include public donations, parking fees, cafeteria sales and interest income.

The responsibilities of the Branches' 65 employees include monitoring operational funding to teaching and specialty hospitals, and community non-teaching hospitals, respectively. The Teaching and Specialty Hospitals Branch is divided into three teams responsible for approximately seven hospitals each, and the Community Hospitals Branch is divided into six teams responsible for approximately 33 hospitals each. Each team consists of two project co-ordinators, one financial co-ordinator and administrative staff reporting to a hospital co-ordinator. The teams' operational responsibilities include identifying hospital funding requirements, investigating financial problems and recommending corrective action.

COMMENTARY

ACCOUNTABILITY FRAMEWORK

Management Board of Cabinet issued a Directive in May 1988 requiring Ministries to establish an accountability framework for transfer payment recipients. This process includes setting expectations (deciding on the objectives and results that the recipient is to achieve with the transfer payment), contracting (entering into an agreement with the recipient), reporting (timely reporting on the achievement of objectives and results by the recipient), and taking corrective action (taking necessary action to ensure achievement of objectives and results).



Health Hospital Operations

3.6 cont'd

According to the Directive, expenditure of public funds should be managed prudently to meet the planned objectives and results of effective program delivery.

Accountability Framework in Process of Being Implemented

The Ministry had prepared an accountability framework for the operation of public hospitals which addresses some of the requirements of the transfer payment accountability Directive. **Many aspects of the accountability framework depend on revisions to the *Public Hospitals Act*.** For example, one possible revision is the establishment of formal lines of accountability between hospital Boards and the Ministry.

A Committee which includes representatives from the hospital community is currently reviewing the Act to advise the Minister on changes needed to provide the appropriate legislative framework for the cost effective co-ordination and delivery of hospital health care services. It is anticipated that this Committee will report its recommendations in the fall of 1991.

Our review of the accountability framework revealed that:

- hospitals are not aware of the Directive, nor are they aware of many of its expectations. For example, one expectation is that hospitals be held accountable for the economic, efficient and effective expenditure of public funds;
- the Ministry has not entered into an agreement with the hospitals because of possible changes to the *Public Hospitals Act*; and
- many of the reporting requirements are the same ones that have been in place for the past several years (e.g. operating budgets, annual reports). However, there are minimal requirements for reporting whether funds spent by hospitals have been managed wisely.

OPERATION OF BRANCHES

Monitoring of Hospital Operations Less Than Satisfactory

The Community Hospitals Branch objectives include working with public non-teaching hospitals to manage all ongoing operational activities. The Teaching Hospitals Branch objectives include liaison with teaching hospitals to monitor expenditures.

We noted that the Branches do not maintain procedure manuals to assist and provide direction to staff in the conduct of their responsibilities. As a result we interviewed 11 co-ordinators from many Branch teams to understand what they did on a daily basis. The co-ordinators informed us that:

- 20 to 50 per cent of their time was spent reviewing hospital operations, with the remaining time spent on capital projects and other matters;



Comments on Ministry and Crown Agency Audits

3.6 cont'd

- the frequency of visits to individual hospitals ranged from 0 to 12 times per year. Visits were made in connection with specific issues and generally were not documented; and
- their monitoring work was not formally reviewed on a regular basis by senior branch management. However, issues were verbally communicated on a regular basis and monthly Branch meetings were held.

Monitoring of Bed Closures Requires Improvement

We noted that, between the 1988 and 1990 fiscal years, 46 public hospitals, or approximately 20 per cent of Ontario's public hospitals, closed approximately 1,200 beds. We were informed by senior Ministry management that many hospitals closed beds commencing in the 1989 fiscal year after the Ministry encouraged hospitals to balance their operating budgets.

Since the 1985 fiscal year, the Ministry has had a policy which states that no bed closures which relate directly to patient care can be made without prior Ministry approval. We selected 15 hospitals that had closed 770 beds during the 1990 fiscal year and noted that for 12 hospitals there was **no evidence of Ministry approval prior to the beds being closed and no evidence that the Branch teams had monitored these bed closures.** Such monitoring is necessary to ensure that the care needs of a community are maintained.

We noted that commencing in the 1991 fiscal year the Ministry advised hospitals that no alteration would be allowed in the base service levels of certain specialized programs such as emergency and critical care.

Minimal Time Spent Monitoring Many Hospitals' Reports

Hospitals are required to submit annual operating budgets, quarterly operating statements, and audited year-end operating results to the Ministry before a specific deadline. The Ministry has a policy which recognizes the importance of these operating reports and indicates that the Ministry will not increase the cash flow to a hospital until its budget has been submitted.

Our examination of 140 operating reports between the 1989 and 1991 fiscal years, revealed no evidence that 65 per cent of the reports had been reviewed by the Branch teams. We were informed that the co-ordinators concentrated their time on hospitals which were forecasting or experiencing a deficit. Based on our review of operating reports and discussion with Branch teams, **the Ministry evidently spent minimal time monitoring 168 hospitals, receiving \$4.5 billion in Ministry funding in 1990, which did not experience a deficit.**

We were informed by senior management that the Branches have recently developed many techniques to monitor hospital operations. For example, the equity funding formula compares the average case costs between hospitals in a given peer group. Equity funding totalling \$25 million in the 1990 fiscal year and \$40 million in the 1991 fiscal year is provided to hospitals which have an average case cost below their peer group. A Committee is currently working on an approach to directly compare one hospital's operating costs against another hospital, while controlling for the clinical variation of hospital cases.



Health Hospital Operations

3.6 cont'd

Accreditation Report Recommendations Not Reviewed

The Canadian Council on Health Facilities Accreditation (CCHFA) is a national body comprised of health care professionals authorized to conduct an accreditation program of health facilities, including hospitals, through an inspection survey. This inspection survey is voluntarily requested by hospitals in an effort to improve the quality of patient care. The contents of the survey report, including recommendations, may be disseminated solely at the discretion of the hospital.

The survey consists of a review to ensure that systems are in place for the management of all hospital aspects including the provision of care for patients.

Each year the CCHFA issues a list of accredited health care facilities including hospitals. Accreditation status ranges from one to three years, with three years being the highest level achieved in this survey. Hospitals are refused accreditation status if the hospital's survey results are unsatisfactory.

In our 1988 report, we noted that 211 public hospitals in Ontario were accredited. During our current audit, we reviewed the January 1, 1991 listing of accredited health care facilities and noted that 215 of the 218 eligible public hospitals were now accredited.

We selected a sample of ten accredited hospitals, covering six Branch teams, and found that **the Ministry had obtained the accreditation report for only one of these hospitals.** At our request, the Ministry asked for and received the accreditation reports for the remaining nine hospitals. We reviewed five of these accreditation reports noting that several issues were identified and recommendations were made. Based on our discussions with the co-ordinators, we determined that **they were often not aware whether the hospital had addressed these issues or recommendations.** For example, at the time of our audit co-ordinators were not aware that in one hospital the CCHFA had noted that the system of signing out narcotic drugs was open to abuse. In another hospital the CCHFA noted the need for accurate, timely and comprehensive financial reports, statistical reports, quality measures and productivity measures.

Surpluses Not Reviewed

One of the major impacts of the BOND funding philosophy was that hospitals would be allowed to retain any surplus on operations but would have to absorb any operating deficit. During the last three years, the Ministry provided 113 hospitals with additional funding totalling \$127 million, of which over \$50 million was one-time funding. The majority of the additional funding went to hospitals experiencing or projecting an operating deficit. **However, we noted 70 hospitals that had received an additional \$51 million in Ministry funding and had year-end surpluses of \$30 million. We saw no evidence that the Ministry had reviewed these surpluses for possible recoveries.**

Additional Funding Provided without Assessment of the Resources and Activities of Hospital Foundations

Many hospitals have incorporated a hospital foundation as a separate legal entity to carry out charitable activities for the benefit of the hospital. Donations received by a



Comments on Ministry and Crown Agency Audits

3.6 cont'd

foundation are either restricted by the donor for specific hospital uses or unrestricted. Unrestricted donations are available for any hospital use, however they are often designated as restricted for specific hospital uses, including capital projects, by the foundation's Board of Directors.

In our 1988 audit report, we noted that hospitals received additional Ministry funding and had either unrestricted funds in their foundations or had previously transferred operating funds to their foundations. Accordingly, we recommended that transfers from hospital operations to foundations be monitored by the Ministry to ensure that the hospitals' operating results were not substantially affected. Further, in order to determine a hospital's total financial resources, we recommended that the Ministry obtain and review all hospital foundation financial statements.

Resources of Foundations

In 1989 the Ministry requested hospitals to submit their foundations' financial statements, but most hospitals did not comply. The Ministry did not follow up on this request and we noted no further Ministry attempt to obtain all of the foundations' financial statements. Furthermore, the Ministry could not provide us with a list of hospitals which had foundations. **Accordingly, the Ministry was not in a position to determine a hospital's total unrestricted financial resources before providing additional funding.**

We identified 143 foundations and requested that the Ministry obtain their financial statements for the past three fiscal years, on our behalf. We received financial statements from 102 foundations; seven refused to submit financial statements; ten stated they had no financial statements because they were inactive or recently incorporated; and 24 acknowledged our request but had not submitted financial statements before the completion of our audit.

Our review of the 102 foundation financial statements indicated that these foundations had total financial resources of approximately \$459 million. These financial resources were comprised of: \$74 million restricted by the donors for specific uses; \$245 million restricted by the foundations' Boards of Directors for specific uses; and \$140 million in unrestricted funds.

We also noted that 39 hospitals with over \$76 million of unrestricted funds in their foundations received \$45 million in additional Ministry funding over the past three years.

Activities of Foundations

In response to our 1988 audit report, the Ministry indicated that the funds provided to, and held by, hospital foundations are typically designated for capital purposes, often for specifically named capital purposes. The Ministry, therefore, considered it inappropriate to assume that these funds should be used to finance operating costs. Furthermore, the Ontario Hospital Association informed us that the foundations' financial resources are only for capital acquisitions. However, our review of the 102 foundation financial statements revealed that some hospitals transferred unrestricted donations to hospital operations.



Health Hospital Operations

3.6 cont'd

Our review and tests of the financial statements of hospitals and foundations indicated many inter-related activities which, as far as we could determine, were not considered by the Ministry when providing additional funding. For example:

- Four hospitals that received additional funding over the past three years had transferred funds from operations to their foundations in or during the two years prior to the year they received additional funding. For example, one hospital transferred \$4 million from operations to its foundation in the 1988 fiscal year, and in the next fiscal year received \$1.5 million in additional Ministry funding.
- Two foundations had commission income resulting from the rental of televisions to hospital patients.
- Sixteen hospitals had outstanding non-interest bearing amounts owing from their foundations. This information was apparent in many of the hospitals' annual financial statements submitted to the Ministry.
- One foundation charged its hospital approximately \$5.2 million during the 1988, 1989 and 1990 fiscal years in accordance with two loan agreements. Under the first agreement, the foundation loaned the hospital \$0.7 million in 1976 with no repayment privileges until 2076. Under the terms of this agreement, the foundation manages the staff apartment residences for a fee which we determined to be over 90 per cent of the residences' net profit. The fee during the three fiscal years totalled approximately \$3.2 million.

Under the second agreement, the foundation loaned the hospital \$0.5 million in September 1980 to construct a parking garage. This agreement continues until the loan is repaid in full or it matures in September 2079. Under the terms of this agreement, the hospital is required to pay the first \$60,000 of the net profits obtained from the parking garage to the foundation and 80 per cent of the parking garage's net profits in excess of \$240,000. Under this agreement the hospital paid the foundation approximately \$2.0 million during the 1988, 1989 and 1990 fiscal years.

We feel that the continuing annual payments of approximately \$1.7 million are excessive relative to the initial loans totalling \$1.2 million and the apartment management services. Furthermore, this hospital received \$4 million of additional operational funding from the Ministry for the 1989, 1990 and 1991 fiscal years. The terms of these agreements were apparent in the hospital's annual financial statements submitted to the Ministry.

Follow-up of Complaints Requires Further Improvement

We estimated that each year the Minister of Health receives in excess of 2,600 complaints regarding problems encountered in public hospitals. Responses to letters addressed to the Minister depended on the nature of the complaint. In some cases the Ministry's Corporate Correspondence Unit prepared a reply for the Minister's signature and a copy of the complaint and the Minister's response were forwarded to



Comments on Ministry and Crown Agency Audits

3.6 cont'd

the Branches. In other cases the complaint was referred directly to the Branch teams for appropriate action, which could include requesting that the hospital review and respond to the complainant's concerns and remit a copy of the response to the Ministry.

We noted that a complaint file was maintained for each hospital, however a procedure was not in place at the Branches to ensure that all complaints were followed up. During our 1988 audit, we noted that approximately 50 per cent of the complaints we sampled were not adequately followed up.

We selected a sample of 86 complaints received during the 1990 and 1991 fiscal years. While some improvement was evident, we still noted 18 complaints (20 per cent) which we felt were not adequately followed up. Many of these complaints were directly related to quality of care. For example, according to the complainants:

- a patient with a ruptured appendix was turned away from a hospital's emergency department twice after being diagnosed as having the stomach flu. There was no evidence to indicate that the Branch had performed any follow-up or communicated with the complainant; and
- a patient admitted for a heart attack was placed in a restraining device despite a doctor's written order not to place this patient in such a device. The complainant was told by the Ministry to contact the hospital directly and no further Branch follow-up was performed.

RESPONSE

The Deputy Minister of Health responded to our audit report.

ACCOUNTABILITY FRAMEWORK

Accountability Framework in Process of Being Implemented

"The Ministry will continue to implement the accountability framework approved by Management Board in October 1989. The accountability framework identified both current expectations and planned improvements. Although the Ministry has not produced a specific manual or contract, all hospitals are aware of current expectations regarding Ministry reporting and accountability requirements.

"Plans are under way to strengthen the lines of accountability and reporting requirements between hospital boards and the Ministry through revisions to the Public Hospitals Act. A broad spectrum of health care individuals and groups are involved in providing recommendations to address the need for more governance and management of hospitals, and for strengthened planning, co-ordination and integration of health care services. The report is anticipated in late 1991 or early 1992."



Health Hospital Operations

3.6 cont'd

OPERATION OF BRANCHES

"The Ministry is of the view that appropriate procedures for monitoring branch activities are in place. Hospitals are required to provide the Ministry with extensive and comprehensive reports which include budgetary, operating and statistical information. All teams follow similar procedures with respect to the review of this information. Operational and financial issues including hospitals' operating budgets are reviewed through a divisional committee to determine action. Divisional senior management are also involved on a case-by-case basis where problems are identified."

"The Ministry does acknowledge that procedures are not all documented, and existing manuals require updating. The Ministry is taking steps to strengthen the documentation of branch monitoring activities."

Monitoring of Bed Closures Requires Improvement

"The Ministry encourages the trend in hospitals to shift the emphasis from in-patient to ambulatory care and improve the utilization of existing in-patient hospital services. Beds are no longer viewed as the only indicator of adequate service availability."

"Hospitals have been able to reduce the number of beds while at the same time meeting service levels by appropriate reductions in hospital in-patient length of stay and an increase in out-patient and day surgery techniques."

"The Ministry policy that has been communicated to the hospital sector is that hospitals must operate within allocated resources. Any changes in service levels of certain specialized programs such as cardiovascular, cancer and in-patient psychiatry require Ministry approval."

Minimal Time Spent Monitoring Many Hospitals' Reports

"Hospitals are required to submit operating reports to the Ministry. These reports are reviewed, analyzed and monitored by Branch Financial Co-ordinators when received. Staff monitor key indicators such as projected year-end operating position and working capital funds. Summaries are available and reviewed by senior management. After initial review by regional teams, further analysis and comparisons are undertaken of hospitals experiencing financial difficulties. These cases are considered priorities for action by the Ministry."

Accreditation Report Recommendations Not Reviewed

"The Ministry considers the review of accreditation reports to be an important procedure to ensure that hospitals have in place standards for all aspects of their facility. Accreditation is a voluntary process. The Ministry will request hospitals to provide this information."

Additional Funding Provided without Assessment of the Resources and Activities of Hospital Foundations

"Hospital foundations are independent legal entities formed for the purpose of raising monies for hospital use. Foundations have important and legitimate purposes, and should be supported by the public and the community. All monies in foundations are"



Comments on Ministry and Crown Agency Audits

3.6 cont'd

used for hospital purposes. The Ministry has no direct authority over foundations. The issue of the relationship of foundations to hospitals, including the issue of the transfer of funds between hospitals and foundations is under consideration as part of the review of the Public Hospitals Act.

"The policy on the use of hospital operating surpluses by hospitals will be reviewed by the Ministry."

Follow-up of Complaints Requires Further Improvement

"As the report indicates, significant improvement has been made in the handling of patient complaints in the past two years. The Ministry will continue to strengthen its procedures regarding the handling and following-up of patient complaints."

3.7 **Monitoring and Cost Control, Ontario Drug Benefit Plan, Ministry of Health**

The Province spent over \$900 million in the 1991 fiscal year providing drugs and therapeutics to eligible Ontario residents under the Ontario Drug Benefit Plan. The Ministry of Health funded \$750 million while the Ministry of Community and Social Services funded \$150 million. The Plan is administered by the Ontario Drug Benefits Activity of the Ministry's Health Benefits Program.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives were to assess:

- the adequacy of efforts to minimize the cost of drug benefits provided;
- whether payments made were only to registered pharmacies and in respect of claims involving eligible recipients and approved drug products; and
- the adequacy of the post-payment inspection process.

Our audit included interviews with representatives of drug manufacturers and pharmacists' associations, and with Health and Welfare Canada officials. We also held discussions with members of the Drug Quality and Therapeutics Committee, and obtained information from them by means of a questionnaire survey.

CONCLUSIONS AND FINDINGS

ECONOMY

Generally, efforts were satisfactory in minimizing the cost of drug benefits provided. However, there was scope for further savings in delivering certain aspects of the Drug Benefit Plan.



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Ontario Drug Benefit Plan

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- Between 1986 and 1990 the cost per capita increased by over 50 per cent. The increase was due primarily to higher drug prices.
- We found that 60 per cent of 30 drugs surveyed were priced lower in one or more of the other provinces. If the lower prices had been obtained by Ontario, an estimated \$7 million could have been saved annually.

CLAIMS PAYMENT CONTROLS

Overall, we found that key claims payment controls were operating satisfactorily. However, in carrying out our tests, we found some irregular billing practices which were referred by the Ministry to the Ontario Provincial Police for further investigation.

MONITORING

The post-payment inspection process was less than satisfactory.

- Almost one half of pharmacies had not been inspected in the last five years. Some pharmacies had never been inspected. On the other hand, a number of pharmacies had been inspected at least three times in the last five years.
- Details of verbal prescriptions were not independently verified with prescribers as part of the Ministry's routine inspection. As 70 per cent of prescriptions are requested on a verbal basis the Ministry is vulnerable to false billings.
- Monitoring of manufacturers' drug prices was inadequate. In 1990 only 20 pharmacies and one manufacturer were inspected. The excess of Ministry reimbursement prices over manufacturers' prices has been estimated at \$20-30 million a year.

OTHER MATTER

- The Ministry is working with physicians and pharmacists to control drug abuse.

BACKGROUND

The Ontario Drug Benefit Plan was established in 1974 to provide selected prescribed drugs as a benefit to eligible Ontario residents.

There are two categories of eligible recipients:

- residents aged 65 or over; and
- recipients of family benefits assistance, general welfare assistance, extended health care benefits, home care benefits, and residents of Homes for Special Care.



Comments on Ministry and Crown Agency Audits

3.7 cont'd

Recipients of family benefits assistance and general welfare assistance are assessed for drug benefit coverage by the Ministry of Community and Social Services (MCSS). The Ministry of Health pays claims for these individuals and is then reimbursed by MCSS.

Approximately 2,500 drugs listed in the Ontario Drug Benefit Formulary (Formulary) are covered by the Plan. To be considered as benefits under the Plan, all drugs must have been prescribed by an Ontario physician, dentist, podiatrist or chiropodist. The Formulary is published twice-yearly, in January and July, and includes both brand name drugs and less expensive generic "interchangeable" drugs.

A total staff of approximately 90 people are responsible for administration of the entire Program.

Between 1988 and 1990, the Program was subject to a major review by the Pharmaceutical Inquiry of Ontario, known as the Lowy Inquiry. Established by Order-in-Council, this Inquiry examined all matters pertaining to the acquisition, prescribing, dispensing and use of prescription drugs in Ontario. Our audit took the final report of this Inquiry into account, and references have been made where appropriate.

COMMENTARY

ECONOMY

Once drug products have been approved for sale in Canada by the federal government, pharmaceutical manufacturers can apply to the Ministry of Health to have their products included in the Formulary. The Ministry refers such applications to an independent body, the Drug Quality and Therapeutics Committee. Approximately two thirds of the Committee's 19 members are physicians, while others are specialists in areas such as pharmacy, epidemiology/statistics, and pharmacology. The Committee uses its expertise in reviewing the manufacturers' drug submissions to determine whether a product should be recommended for inclusion in the Formulary.

Need for Review of Increasing Drug Costs

Between 1986 and 1990 the costs of the Ontario Drug Benefit Plan have increased significantly. Program statistics of costs incurred by senior citizens indicated the following:

| | <u>1985-86</u> | <u>1989-90</u> | <u>Per cent Increase</u> |
|--|----------------|----------------|--------------------------|
| Senior citizen costs | \$319 million | \$573 million | 80 |
| Number of senior citizens using the Plan | 881,000 | 1,030,000 | 17 |
| Costs per capita | \$362 | \$556 | 54 |
| Total number of claims | 24.1 million | 29.0 million | 20 |
| Cost per claim | \$13 | \$20 | 54 |



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Ontario Drug Benefit Plan

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The table illustrates that the number of senior citizens utilizing the Plan had increased by 17 per cent, while the cost per capita had increased by 54 per cent. However, the increase in the number of senior citizens using the Plan was consistent with the increase in the number of claims. Therefore, the increased costs of drugs were primarily responsible for the increased costs of the Plan.

We compared Ontario's costs to those in Quebec, British Columbia, Saskatchewan and Nova Scotia. We found that Ontario's cost per capita of \$556 was the second highest. The per capita range for the other provinces was \$257 to \$693 for the 1990 fiscal year.

Both the Ministry and the Drug Quality and Therapeutics Committee were of the opinion that there was a need to establish the capability for an ongoing drug utilization review specific to Ontario. This was also supported by the findings of the Pharmaceutical (Lowy) Inquiry of Ontario.

Lower Costs of Drugs in Other Provinces

Drug costs are an aggregate of three components:

- the cost to the pharmacy (known as the best available price or BAP);
- a 10 per cent mark-up; and
- a fee charged by the pharmacist for dispensing drug products.

The BAP shall be "net of the value of any price reduction granted by the manufacturer or wholesaler or their representatives in the form of rebates, discounts, refunds, free goods or any other benefits of a like nature."

The BAP is the lowest price at which drug manufacturers will make a product available in Ontario. Rather than actively negotiating these BAP prices with the manufacturers, the Ministry accepts the prices that the manufacturers quoted twice-yearly prior to the publication of the Formulary. The Ministry, however, does adjust the Formulary pricing immediately for any decreases that occurred during the year.

As drug manufacturers can sell the same drug product for different prices in different provinces, it is possible for some drug products to be sold at lower prices outside Ontario.

To determine the extent of price variances between provinces, we compared the Ontario prices for 30 drugs with prices in British Columbia, Saskatchewan, Quebec and Nova Scotia. The drug products selected had either high claims volume or high dollar volume for 1990, and included both generic and brand names. The total amount paid by the Ministry in 1990 for these 30 drugs was approximately \$150 million.

We noted that prices were lower for 18 of the 30 drugs in one or more other provinces. If such lower prices had been obtained by Ontario, we estimated that savings for the selected drug products alone would have been \$7.2 million in 1990.



Comments on Ministry and Crown Agency Audits

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The Ministry needs to regularly compare drug prices in different provinces. Furthermore, Ontario should be able to negotiate the most economical drug prices, as the number of recipients using the Program represents approximately 40 per cent of the prescription drug market in Ontario and is larger than the entire population of many other provinces.

Previously the Ministry was not negotiating drug prices with the manufacturers. However, in a May 14, 1991 statement to the Legislature, the Minister of Health indicated that the Ministry would be "actively (negotiating) prices of products with manufacturers."

CLAIMS PAYMENT CONTROLS

The Ontario Drug Benefit Plan processed over 36 million claims totalling approximately \$900 million during the 1991 fiscal year. Processing is largely handled by a Claims Assessment and Claims Payment Unit with a staff complement of 37. Technical computer support is provided by the Ministry's User Support Branch.

Satisfactory Controls over Payment of Drug Claims

Most of the key controls for ensuring that claims are properly assessed and paid are computerized. These controls are in the form of edit checks, which are designed to ensure that data submitted on drug claims agrees with data in the following Master Files:

- Eligibility Master File of all eligible recipients.
- Pharmacy Master File of all licensed pharmacies that are registered with the Ministry.
- Formulary/Non-Formulary Master Files listing all drug products eligible for reimbursement along with the reimbursement price.

In examining key computer and manual controls, as well as the integrity of various Master File data, we used computer assisted audit techniques to test:

- approximately 180,000 paid claims, ensuring they agreed to each of the above Master Files; and
- master file data for reasonableness, completeness and accuracy.

These techniques enabled us to obtain a high level of assurance of the adequacy of controls. Test results showed that key controls were operating in a satisfactory manner.



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Claims Paid for Deceased Persons

Recipient Eligibility

Although key controls were found to be generally operating in a satisfactory manner, we did notice a weakness in recipient eligibility that has existed since 1982. The Eligibility Master File is updated monthly based on records received from the federal government detailing Ontarians receiving Old Age Security (OAS) benefits. The control weakness stems from an internal policy that keeps people on the Master File for seven months after they have been deleted from the OAS records.

The policy was implemented in 1982 in response to complaints from pharmacies regarding high rejection rates on valid claims for seniors who had returned to the Province after vacationing in warmer climates for the winter. Many of these seniors lost their status as Ontarians in the OAS records while vacationing, and delays in regaining this status upon return resulted in rejected claims. Information received from the federal government now includes these recipients and simply identifies them as having questionable Ontario residency. This eliminates the need for a grace period.

In February 1991 the Ministry received data on all OAS recipients who had passed away in 1990. At our request they electronically matched this data to all paid claims in 1990, and discovered that over \$100,000 had been paid on claims charged to recipients who were reportedly deceased.

Joint Inspection Effort

As a result of these findings we met with the Ministry's inspection branch. They felt as we did that this matter required further attention. We worked together in identifying high risk pharmacies for investigation and in developing a detailed inspection approach. In addition, we accompanied Ministry inspectors on a sample of pharmacy visits.

While many of these anomalies were attributable to clerical errors, we did notice a number of invalid claims. For example:

- Drugs dispensed to deceased former residents of nursing homes, due mainly to poor communication between the home and the dispensing pharmacy. We noted similar problems involving cancelled medications and residents who had been discharged.
- Overbillings in respect of deceased persons due to sloppy billing practices.

In addition to these administrative deficiencies, we also found some irregular billing practices. Because of the serious nature of the irregularities, they have been referred by the Ministry to the Ontario Provincial Police for further investigation.



Comments on Ministry and Crown Agency Audits

3.7 cont'd

MONITORING

Inadequate Inspections

The Ontario Drug Benefit Plan Inspection Unit is responsible for monitoring payments made to pharmacies through a post-payment inspection process.

The Unit's five field inspectors (who are licensed pharmacists) are responsible individually for five southern regions and collectively for five northern regions. The inspectors enjoy considerable autonomy, given that they work out of their homes and are relatively free to choose which pharmacies to inspect.

The Unit also performs in-depth inspections when false billings are suspected. This entails extensive investigation, including visits to prescribers and recipients, in order to confirm the details of verbal prescriptions billed. There have been serious cases in which the Ministry has worked with the Ontario Provincial Police to obtain criminal convictions.

The Unit has recovered approximately \$1 million over the last five years on billings of over \$2 billion.

Inspection Coverage

Management currently focuses on the number of inspections performed annually. Inspectors are evaluated mainly on the performance of a specified number of inspections annually. Since information on inspection activity was not aggregated or analyzed further, the Ministry did not know what type of inspection coverage was being achieved.

We compiled statistics on five years of inspection activity from Ministry records and found:

- Slightly more than 50 per cent of pharmacies were inspected in the last five years. At this rate it would take around 8 to 10 years to cover all pharmacies. An average pharmacy could receive more than \$2.5 million without having its prescription records scrutinized.
- Inspection coverage varied greatly among the five main regions. Coverage ratios varied from 64 per cent in the top region to 37 per cent in the worst.
- In a random sample of 70 pharmacies, we found that 16 had no record of ever being audited.

This poor coverage weakened the deterrent effect of the inspection function.

Inspection Focus

While many pharmacies had not been inspected in the last five years, we found that over 100 pharmacies had been visited at least three times during this period. We reviewed a sample of 15 such inspections conducted in 1990 to assess whether intensive scrutiny was warranted. We found that nine of the



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fifteen inspections sampled related to pharmacies for which no recoveries were made nor warnings issued on previous visits.

Some of the nine triplicate inspections related to pharmacies with relatively high billings per capita. However, they were conducted at the expense of overall cyclical coverage and the higher risk cases. In this latter regard, we selected 12 pharmacies associated with pharmacists disciplined by the College between 1987 and 1989. Seven of those sampled had not been inspected subsequent to the action taken by the College. We also found that follow-up inspections were generally not performed in pharmacies which were known to have overbilled in 1988 and 1989.

High Risk Verbal Prescriptions

The majority of prescriptions are issued by physicians. Prescriptions can take the form of written direction, or they can be issued verbally, usually by telephone.

Based on discussions with the Ministry and the Ontario College of Pharmacists it is estimated that **roughly 70 per cent of prescriptions filled are verbal**. This involves approximately 25 million claims and over \$600 million paid annually by the Province.

During our review we noted that the inspectors did not verify the details of verbal prescriptions with physicians as part of a routine inspection. In our view, this leaves the Ministry vulnerable to false billings. In this regard:

- We sampled seven recoveries involving large billings of a fraudulent nature between 1986 and 1990 and found in six cases that falsified verbal prescriptions had been used to overbill. In addition, our review of 17 large recoveries between 1988 and 1990 showed most overbillings were related to verbal prescriptions.
- Irregularities that were referred to the Ontario Provincial Police involved verbal prescriptions.

In addition, the August 1990 newsletter of the Ontario College of Pharmacists reported that Metro Toronto Police had recently charged a person with 41 counts of false pretences and impersonation, in connection with the issuance of verbal prescriptions.

Given this scenario, we recommended that the Ministry implement a standard inspection procedure of confirming details of verbal prescriptions with prescribers and/or recipients on a test basis.

Inadequate Investigations into Best Available Price

The *Prescription Drug Cost Regulation Act* governs the reimbursement of drug prices at best available price (BAP) and allows the Ontario College of Pharmacists to appoint inspectors to enforce BAP. Initially, at the request of the Ministry, several Ministry representatives were appointed. However, due to limited Ministry resources, only a single individual was subsequently available to enforce BAP. The individual was



Comments on Ministry and Crown Agency Audits

3.7 cont'd

responsible for visiting pharmacies and manufacturers to review documentation, as well as for daily administration of the Formulary prices area, and regular updating of the published Formulary.

During 1990 only 20 pharmacies and one manufacturer were visited. These visits detected several violations of BAP which involved pharmacists actually paying distributors a price lower than BAP. Consequently, the Ministry reduced the prices of ten drugs in the February 1991 Formulary to the lower prices found. The reductions were retroactive to July 1990, resulting in estimated recoveries of \$1.2 million. This example only underscores the need for additional investigations.

Also, with respect to the BAP investigations we noted the following:

- No formal procedures were in place, either for identifying and selecting the number and location of the pharmacies and drug manufacturers to visit, or for conducting such investigations.
- In 1990, the Ministry received 20 complaints from various pharmacists regarding BAP violations by others. There was no evidence the Ministry acted on these complaints.

Our discussions with Ministry representatives and associations of manufacturers and pharmacists revealed a general consensus that BAP violations existed in the marketplace. However, neither the Ministry nor the other organizations had extensively analyzed this problem. Although estimates of the impact of the problem ranged from \$20 million to \$30 million a year, there was no hard evidence to support this range.

The Ministry had recognized this problem, and was considering several options including: new regulations requiring pharmacies, manufacturers and wholesalers to increase their reporting of prices paid for drugs and information about discounts, rebates, free goods and other incentives; and the creation of a special unit dedicated to BAP non-compliance work.

OTHER MATTER

Control of Drug Abuse

The Ministry had been actively monitoring cases of heavy users of drugs under the Plan. Ministry efforts were aimed at controlling costs in these situations, by alerting pharmacists and physicians of abuse of the Plan by patients who visited a number of physicians to obtain drugs.

One report by the Ministry to the College of Physicians and Surgeons indicated 28 cases of apparent drug abuse, when 42 individuals were investigated because of the large number of pharmacies they had visited. For example:



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- During a six month period, one individual had prescriptions from 72 different physicians filled in 33 different pharmacies.
- Another individual made extensive use of 42 physicians throughout Metro Toronto. Similar narcotic and tranquilizing drugs were received from two different doctors and two pharmacies on the same day.

The Ministry views its efforts and the disclosure of such information to the College as essential for the College in the discharge of its responsibility to protect the public interest. However, the *Freedom of Information and Protection of Privacy Act* regulates disclosure of personal information. Consequently, there is a need to clarify how information is to be shared with various organizations, including the Ontario College of Pharmacists. The Ministry's legal department was addressing the disclosure issue.

RESPONSE

The Deputy Minister of Health responded to our audit report.

ECONOMY

Need for Review of Increasing Drug Costs

"The Auditor's report notes higher Ontario per capita program costs than in other provinces. These result in part from the fact that in those provinces, the consumer is required to pay a portion of the costs, and in some provinces drug programs also cover all non-elderly, who on the average receive fewer prescriptions and have lower costs per capita. Interpreting these comparative data requires consideration of the impact of factors such as these.

"The Ministry is currently working with the Ontario College of Pharmacists, the College of Physicians and Surgeons of Ontario, the Ontario Pharmacists' Association, the Ontario Medical Association and the Faculties of Medicine and Pharmacy of the University of Toronto towards developing models for the establishment of a drug utilization review (DUR) capability in Ontario. A multidisciplinary steering committee has been established and has held a number of meetings to plan a symposium to develop an appropriate DUR model for Ontario."

Lower Costs of Drugs in Other Provinces

"The report suggests that had Saskatchewan prices been applied in Ontario, a savings of \$7.2 million would have been realized in 1990. It should be noted that in Saskatchewan, the tendering system (Standing Offer Contract, SOC) involves eliminating all but the tender-winner from the marketplace for a period of six months."

Editorial Note: Less than one half of the estimated savings of \$7.2 million related to price differentials between Saskatchewan and Ontario.

"The Drug Programs Branch has initiated a review and comparison of drug prices in the ODB Formulary to the prices paid by other provinces. Letters were sent on



Comments on Ministry and Crown Agency Audits

3.7 cont'd

July 23rd and 24th, 1991 to those manufacturers whose prices in the January 1991 Saskatchewan Formulary were less than the Best Available Prices published in the February 1991 Ontario Formulary.

"Manufacturers were asked to clarify why their products were priced lower in Saskatchewan relative to Ontario. The Ministry has received responses from manufacturers, and is developing a strategy to resolve this issue."

MONITORING

Inadequate Inspections

Inspection Coverage

"The eight- to ten-year coverage cycle is mainly the result of a decline in the number of inspectors at a time when the ODB Program experienced significant growth."

"Various controls are in place to set goals, measure inspection activity, and track audit activity. However, specific aggregate statistics are not readily available. This shortcoming will be remedied by the implementation of a database management system for which a prototype has already been developed."

"The Ministry accepts the recommendation that there should be a re-examination of inspection coverage practices. The new database management system will be used to identify geographic areas or particular accounts that have not been inspected for a long period of time. Resources will be shifted accordingly to avoid the extremes noted by the Auditor."

Inspection Focus

"Regarding multiple audits, approximately 100 triplicate audits were conducted out of a total of 2,200 audits conducted during the most recent 5-year period. Many of these derive from the sampling policy to annually inspect high-risk accounts; eight of 15 triplicate audits sampled were directly due to targeting 'high cost per patient' accounts. The Auditor recommends changing the definition of high-risk accounts. Implementing those changes will alter the focus of the audit policies and objectives, but they will not shorten the audit cycle."

"To date, most repeat audits are the result of a policy to audit the highest 'cost per patient' accounts each year, regardless of whether or not discrepancies were encountered on the previous inspection."

"In accordance with the Auditor's suggestion, targets will be realigned to emphasize accounts from which recoveries were made or warnings issued on the previous visit. The database management system will incorporate this objective."

"In addition, the current policy of increased audit scrutiny for past offenders against ODB will be expanded to include pharmacists disciplined by the Ontario College of Pharmacists for offences related to lack of integrity."



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3.7 cont'd

"The Ministry will also give consideration to the addition of forensic expertise to strengthen its inspection capacity."

High Risk Verbal Prescriptions

"The Auditor correctly identifies verbal prescriptions as a risk area, vulnerable to false billing."

"The Ministry verifies samples of prescription billings by visiting physicians and patients when false claims are suspected; however, it does not verify samples during routine audits."

"The feasibility and opportunity for using verification letters to physicians will be investigated, taking into account the effects of Freedom of Information restrictions, and the implementation of a procedure to collect prescriber identifiers."

"The claims payment system has already been altered to accommodate a prescriber identifier as part of the billing information collected. The Ministry has been discussing the collection of such data with the professional Colleges involved."

"The legal issues surrounding the Freedom of Information and Protection of Privacy Act, regarding the use of verification letters will be examined."

Inadequate Investigations into Best Available Price

"The Drug Programs Branch has initiated several steps to implement the Auditor's suggestions in this area. Work is already underway on the adoption of regulations requiring regular reports by pharmacies, manufacturers and wholesalers, of prices paid for drugs, and of any rebates, discounts, free goods, and other incentives."

OTHER MATTER

Control of Drug Abuse

"The Auditor correctly notes that there is a need to clarify Freedom of Information issues regarding the sharing of information about drug abuse. The Ministry will further explore the legal issues surrounding the Freedom of Information and Protection of Privacy Act as it relates to the sharing of information about drug abuse."



Comments on Ministry and Crown Agency Audits

3.8

Industrial Assistance, Ministry of Industry, Trade and Technology

The Ministry's Industry and Trade Expansion Activity provides financial assistance to major private sector capital projects. During the six fiscal years from 1986 to 1991 the Ministry provided approximately \$275 million in financial assistance, by way of grants and loans, to 24 large industrial projects. The Ministry also provided approximately \$90 million in loan guarantees to three other projects.

SUMMARY

SCOPE AND OBJECTIVES

We audited a representative sample of nine projects funded by the Ministry. Financial assistance provided to these projects totalled \$170 million representing over 60 per cent of the total funding of \$275 million. Our audit included discussions with Ontario Government officials and site visits.

Our audit objectives were to assess whether the Ministry:

- ensured that projects were properly evaluated for financial assistance prior to Cabinet approval; and
- monitored recipients for compliance with the terms and conditions of the agreements.

CONCLUSIONS AND FINDINGS

EVALUATION OF PROJECTS

We concluded that the Ministry's project evaluation process was unsatisfactory.

- The Ministry's Industrial Adjustment Section lacked a clear mandate. Consequently, some projects which should have been handled by the Section were negotiated by an agency. On one such project, the Province lost \$8 million.
- For some projects:
 - the need for and level of government assistance were not properly evaluated;
 - reasonable assurance of the project's success was lacking; and
 - information in the Cabinet submissions was inaccurate or incomplete.

MONITORING OF PROJECTS

The Ministry's monitoring of projects for compliance with the terms and conditions of the agreements was less than satisfactory. There was



Industry, Trade and Technology

Industrial Assistance

3.8 cont'd

no evidence that such benefits as Canadian content and skills training were properly monitored.

We noted that the Ministry has begun to address the deficiencies in the delivery of its industrial assistance program.

BACKGROUND

The Industry Adjustment Section of the Ministry's Industry and Trade Expansion Division was established in 1985 to provide special assistance to large private sector industrial projects which were not eligible for funding under other established government assistance programs. Prior to July 1985, such assistance was provided by the Board of Industrial Leadership and Development (BILD) under the Economic Policy Program of the Ministry of Treasury and Economics.

To be eligible, an applicant had to demonstrate a potential for long-term economic benefits to the Province. Such benefits included development of key industries, strengthening of economically depressed regions and the creation of stable jobs.

Assistance was usually provided in the form of grants, loans and/or loan guarantees. The Ontario Development Corporation (ODC), an agency of the Ministry, disbursed the funds and monitored the projects.

The following is a breakdown, by industry sector, of the 24 projects funded by the Ministry from 1986 to 1991 and the nine projects we audited:

| | \$million | % | Audited Projects | \$million |
|-------------------------|------------|------------|---------------------|------------|
| <i>Loans:</i> | | | | |
| Automotive | 129 | 47 | #1* | 54 |
| | | | #2 | 35 |
| | | | #3 | 40 |
| Automotive parts | 93 | 34 | #4 | 8 |
| | | | #5* | 10 |
| Forest products | 27 | 10 | #6 | 7 |
| Aeronautics | 9 | 3 | #7* | 9 |
| Other | <u>17</u> | <u>6</u> | #8 | <u>7</u> |
| | <u>275</u> | <u>100</u> | | <u>170</u> |
| <i>Loan Guarantees:</i> | <u>90</u> | <u>100</u> | #9 | <u>3</u> |

*These projects were approved by BILD.



Comments on Ministry and Crown Agency Audits

3.8 cont'd COMMENTARY

EVALUATION OF PROJECTS

Overview

Requests for assistance come from various sources such as the Ministry's domestic and international offices, the Minister's Office, the Development Corporations and other ministries.

The Ministry's Industry Adjustment Section evaluates each application to determine if government assistance is critical for a project to proceed. This requires considerable judgement and skill. Also, financial incentives may sometimes be necessary to attract key projects to Ontario from competing jurisdictions.

The project is then analyzed for reasonable assurance of long-term success. At times, the Ministry may assume greater risk to focus on industrial development.

Negotiations are conducted with the successful applicant to agree on the nature and level of funding. This is largely determined by the needs of the applicant, established precedents and availability of funds. The federal government participates in many of these projects.

Finally, a draft Cabinet submission is prepared for consideration by the Ministry's Senior Management Committee and the Inter-Ministerial Committee before Cabinet approval. The Cabinet submission outlines the benefits and costs of a project with the Ministry's recommendation for approval.

After Cabinet approval, a legal agreement is signed with the applicant.

Unclear Mandate

The Industry Adjustment Section is responsible for the overall management of the Ministry's participation in large industrial projects. Its main objective is to derive maximum benefits from sponsored projects while ensuring a level of consistency in the Province's involvement.

We noted that certain projects were negotiated by ODC, although they fell under the Section's mandate. According to the guidelines approved by Cabinet in 1988, these projects were beyond ODC's lending limits and, as such, should have been evaluated by the Industry Adjustment Section. The guidelines limited ODC to loans of \$500,000 and to loan guarantees of \$1 million.

As noted in the Background, eligible applicants had to demonstrate a potential for long-term economic benefits to the Province. The assistance given to the following companies was supposed to help them through temporary financial difficulties. However, our review of the project files indicated that the projects were driven more by the pressure to save jobs in the short run than the assurance of long-term viability.

- A trailer manufacturer (Project #8) was provided with a \$1 million loan guarantee in 1988 and a \$6.6 million loan in 1989. The loan was to help the



Industry, Trade and Technology

Industrial Assistance

3.8 cont'd

company weather a temporary market decline caused by delays in legislation allowing 53-foot trailers in the province.

Eight months after the company received the \$6.6 million, the banks called their loans and **the Province lost \$8 million including interest.**

The recommendation to Cabinet to fund the company was made by the Ministry of Transportation (MTO). At the request of MTO, ODC provided an assessment of the financial viability of the company. Based on this assessment, ODC advised MTO that funding the company would be "high risk."

Our examination of the project files indicated that at the time of the loan the company was on the verge of bankruptcy. The company had been experiencing extreme financial difficulty for a long time and the banks were ready to call their loans. Under the circumstances, the recommendation to fund the company was questionable.

- In November 1990, ODC recommended a \$2.5 million loan guarantee to a financially troubled automotive parts manufacturer (Project #9). Earlier, in 1986 and January 1990, the company had also received \$1 million in loan guarantees from ODC.

The project file indicated that the \$2.5 million loan guarantee would only help the company survive another six months. One senior ODC official had also raised serious concerns over the company's lack of financial viability and weakness in its management.

Six months later the company was put into receivership. The final loss to the Province has yet to be determined.

- In addition to the nine audited projects listed in the Background, we also examined the following project, which was evaluated and funded by ODC.

On November 1, 1990, a carpet manufacturer was placed into receivership. To save the company, ODC evaluated and approved a merger that required a \$5 million loan and a \$2 million loan guarantee.

In placing the financially troubled carpet manufacturer into receivership, the company's bank had decided that the textile manufacturing industry in Canada had no future. Because of that concern and the significant amount of funding involved, ODC's recommendation to provide government assistance, without consultation with the Ministry, was questionable.

Also, given the resources available within the Ministry, we question the hiring of consultants by ODC to review the operational and financial viability of the company. Fees paid to the consultants totalled approximately \$125,000.

ODC advised us that early indications were that the project had been a success and its future looked good.

We recommend that the Ministry review the 1988 Cabinet guidelines and clarify the roles and responsibilities of the Industry Adjustment Section and ODC.



Comments on Ministry and Crown Agency Audits

3.8 cont'd

Need for Assistance Not Evaluated

The project files we reviewed contained little or no evaluation to justify the need for government assistance. This was particularly evident in the following projects:

Project #2

In 1985, the Province agreed to provide approximately \$100 million of interest free loans and other benefits to help a foreign company build a \$400 million automobile assembly plant in Ontario. The Ministry's share was a \$35 million repayable loan, interest free for 14 years. The loan was paid by the Ministry in five installments between May 1987 and January 1988. Repayments are to commence in June 1995 at the rate of \$5 million per year for seven years.

The company also received a commitment from the federal government for tax and duty exemptions. One of the major benefits to Ontario was the creation of approximately 1,000 new jobs. Production started at the plant in November 1988.

The Ministry claimed that provincial assistance was necessary to provide the company with an acceptable return on investment and to compete for the project with other provinces. However, we found no evidence to support these claims.

Instead, based on our research and review of the project file, we learned the following:

- In the summer of 1985, well before provincial participation, the company publicly announced it would build assembly plants in both Canada and the U.S.A. Voluntary export restrictions in its country, the rising currency exchange rate and increasing domestic production costs justified this move. Moreover, the move provided an opportunity for the company to increase its market share.
- The company was also seeking to attain Canada/U.S.A. Auto Pact status by locating a plant in Canada and producing to the required level of Canadian content. As an Auto Pact member, the company could import to Canada automobiles and parts free of the approximately 10 per cent duty as long as its minimum level of production matched the sales in Canada. Also, duty-free access to the markets in the U.S.A. would be assured. These benefits were not available from a location in the U.S.A.
- Southern Ontario offered many advantages of location to automobile manufacturers. It was the largest market in Canada and housed most of the automobile and parts manufacturers. There was also a good supply of skilled labour, hydroelectric power and ready access to major distribution routes to markets in the U.S.A.

We also noted that the first company from that country to build an assembly plant in Ontario (opened November 1986) received only minimal provincial assistance (approximately \$2 million) for infrastructure costs. According to the company, its decision to locate in Ontario was influenced more by the factors noted above than by the amount of provincial assistance.



Industry, Trade and Technology

Industrial Assistance

3.8 cont'd

Project #3

In 1986, the Province agreed to provide \$50 million in forgivable loans and grants to a project to build a \$500 million automobile assembly plant in Ontario. The project was a joint venture between two foreign companies. One of the major benefits to Ontario was the creation of 2,000 new jobs. The Federal Government also offered assistance to the venture in the form of training grants and duty exemptions.

The Ministry's share was a \$40 million forgivable loan paid in one amount in June 1987. The loan is forgivable against specific performance targets including investment, production and achievement of Auto Pact status. Production at the new plant started in April 1989.

One company needed an entry into the subcompact car market whereas the other wanted to enter the North American market. A joint venture study done in 1984 saw the feasibility of locating an assembly plant in Canada. For many of the same reasons as Project #2, this project was expected to benefit most by locating in Ontario. Importantly, duty-free access to markets in Canada and in the U.S.A. as an Auto Pact member would be assured. We found no evidence that the Ministry had considered these factors in its deliberations.

Assurance of Project Success Lacking

We found that the project files we examined generally lacked proper evaluation of the project's viability and verification of information submitted by the applicant. The Ministry often readily accepted the applicant's optimistic forecasts and representations. We noted that some projects had not subsequently lived up to the original expectations. For example:

Project #4

In 1986, the Ministry provided an \$8 million interest free, forgivable loan towards a new \$40 million aluminum wheel manufacturing plant. This was a joint venture between a foreign company and a Canadian company.

The new plant started production in early 1988. The project file indicated that the plant needed to run at full capacity of 700,000 units per year to break even. However, we found no evidence of an assessment by the Ministry to support the reasonableness of the sales forecast based on industry performance, trends and competition.

In July 1990, the Canadian company sold its interest to its foreign partner. That company, in turn, sold 75 per cent of its interest to another foreign company in September 1990.

During our site visit in early 1991, we noted that the plant was operating at only 30 per cent capacity. The plant had suffered losses of over \$30 million in 1990. The new owners of the plant indicated that the capacity would have to be increased to over one million units per year and the production process improved before the plant could be made viable.



Comments on Ministry and Crown Agency Audits

3.8 cont'd

Project #6

In 1987, the Province approved a \$6.8 million loan to an Ontario company to build a \$40 million particleboard mill that would produce Ontario's only state-of-the-art combination medium density fibreboard (MDF). The Federal Government also provided the company with a \$6.7 million loan. Proposed benefits to Ontario included employment, regional development and use of environmental waste products.

The Ministry paid the loan of \$6.8 million in 1988. The loan is interest free until January 31, 1993. Repayments of principal and interest are to commence thereafter until December 1, 1997. The mill was completed and production begun in May 1989.

The feasibility study prepared by the company formed the basis for the assistance. The study assumed that a related company would use over 60 million square feet (60 per cent) of the MDF in the manufacture of another particleboard product. This unrealistic assumption was not questioned by the Ministry even though, at the time, the related company was producing only 10 million square feet of this particleboard product.

We learned from our site visit that the plant was unable to produce MDF and was limited to producing regular particleboard. Consequently, the plant, the largest in Ontario, has been competing directly with other existing particleboard manufacturers. Currently, the plant is operating at 30 per cent capacity and its future is uncertain.

Inconsistent Level of Assistance

It is important for the Ministry to conduct well-planned negotiations to maximize the benefits to the Province while ensuring consistency in the level of funding. We could not tell from the files for the nine projects we examined whether the negotiated funding levels were reasonable.

Funding levels varied significantly from one project to the other. To illustrate, funding levels for the three automotive projects on a "\$ per job" basis per the Ministry were as follows:

| Project # | Job \$ |
|--------------|-----------|
| 1 | 9,000 |
| 2 | 44,000 |
| 3 | 27,000 |

Deficiencies in Cabinet Submissions

We found deficiencies in the submissions to Cabinet. We questioned whether the information contained in the submissions was always accurate or complete enough for the Cabinet to make an informed decision. In 1989 the Cabinet Office issued a memorandum to Deputy Ministers regarding the quality of Cabinet submissions. Specifically, the Office noted that the submissions presented



Industry, Trade and Technology Industrial Assistance

3.8 cont'd

only one option or that the analysis of alternatives was heavily slanted towards one particular course of action.

Also, in some instances, the legal agreements signed by the Ministry with the applicants were not consistent with the Cabinet submissions. For example:

Project #2

The Cabinet submission understated the actual cost of provincial assistance. For instance, it did not mention the following additional costs to the Province:

- \$23 million of infrastructure costs;
- \$14 million of provincial sales tax exemption; and
- \$8 million from sale of crown land below market value.

Consequently, the actual cost to the Province of the 1,000 jobs created was approximately \$100,000 per job compared to the Ministry's figure of \$44,000 per job.

The submission also claimed that 20 per cent Canadian content would be achieved. However, the agreement with the company only required "best effort." This term was not defined.

Project #6

The Cabinet submission claimed that 134 direct jobs would be created by the project. This number was based on the applicant's business plan.

However, the agreement with the applicant reduced this number to 66. We learned from the company that the original number was unrealistic.

Rejected Projects

The Ministry does not maintain a log of projects reviewed for assistance. At our request, the Ministry compiled a list of all projects, totalling over 200, that had been reviewed by the Ministry. From this list we selected seven rejected projects for our review.

We found deficiencies similar to those noted earlier for the approved projects. For example, the project files lacked adequate analysis and support to justify rejection. Furthermore, there was no follow-up to see whether certain projects had indeed proceeded without government assistance and how well these had succeeded.

In our opinion, such follow-up would assist the Ministry in continuously improving its evaluation process.



Comments on Ministry and Crown Agency Audits

3.8 cont'd

MONITORING OF PROJECTS

Roles Not Clearly Defined

The Ministry had not clearly defined the ODC's role in monitoring projects on its behalf. This was left to ODC's own interpretation and discretion.

After a project was turned over to ODC, it was largely forgotten by the Ministry. ODC only reported to the Ministry when a serious problem occurred.

ODC's consultants do not participate in the negotiations or writing of the agreements. In our opinion, participation is important to the understanding of the agreements and familiarization with the projects. Furthermore, such participation would enhance ODC's accountability and provide a greater incentive for it to fulfil its role. This is illustrated by the following example:

Project #6

In its Cabinet submission, the Ministry claimed that a new plant would reduce environmental pollution in the region by using approximately 130,000 tonnes of wood waste per year that would otherwise be burnt or dumped in the surrounding area by sawmills. However, this condition was not written into the agreement. Consequently, neither the ODC consultants nor the Ministry followed up to see how much wood waste was consumed by the plant. We learned from our site visit that the plant used only 30,000 tonnes in 1990, or 20 per cent of the planned annual consumption.

At the time of our audit, we were informed that the Ministry and ODC were working on a memorandum of understanding to clarify their respective roles and responsibilities.

Insufficient Monitoring of Projects

A project must be monitored throughout its life. This ensures that the covenants in the agreements are satisfied and that the Province realizes all the intended benefits. Typically, these benefits include job creation, skills development and Canadian content.

ODC had no formal monitoring guidelines to assist its consultants. The consultants used their own judgement in deciding what and how much to monitor. We noted that information in the project files was mostly of a financial nature submitted by the recipients. Documentation of any work done by ODC consultants was generally sketchy. Especially, we found no evidence of follow-up on the more important benefits to the Province stated in the agreements. For example:

- Many agreements required a recipient to make "best efforts" in increasing the level of Canadian content. However, no attempt was made by the consultants to define and monitor this. We noted, for instance, that the Canadian content level ranged from 20 to 45 per cent for the three automobile projects (Projects #1, 2 and 3).



Industry, Trade and Technology

Industrial Assistance

3.8 cont'd

- Standard skills training clauses were included in all agreements. This was done to ensure that new skilled jobs were created and not merely filled from the existing pool. However, this requirement was largely ignored by the consultants as they thought that the Ministry of Skills Development (MSD) was responsible for monitoring this aspect of the agreements. Yet, MSD claimed that such an arrangement did not exist.

ODC explained that the deficiencies were partly caused by poorly written agreements and lack of communication with the Ministry.

We were also advised that ODC is currently in the process of developing a procedural manual to improve its monitoring function.

RESPONSE

The Deputy Minister of Industry, Trade and Technology responded to our audit report.

GENERAL

"The Audit was neither complete nor comprehensive. With the exception of the ODC-negotiated projects, the selected projects were evaluated and approved a number of years ago prior to the involvement of any of the present Section staff. It is therefore surprising that no attempt was made to interview either Ontario or Federal Government personnel who were active at that time, nor, apparently, was there any attempt to review relevant government records, other than those in the files of ODC and the Ministry's Industry Adjustment Section."

EVALUATION OF PROJECTS

Unclear Mandate

"Although the source of funding for the trailer manufacturer and the automotive parts manufacturer eventually came from the Industrial Assistance program, it was not apparent that this would be the case at the time ODC became involved. For instance, in the case of the trailer manufacturer, it was initially intended that the Ministry of Transportation could provide the funds as outlined in the Cabinet minute reflecting the transaction. For the other two transactions, it was initially not readily apparent that the financial assistance required would be in excess of ODC program guidelines. It did not make sense to change lending organizations in midstream. The then Deputy Minister of MITT concurred with ODC's recommendation on both transactions. In all cases, ODC obtains, either alone or working with other ministries, Cabinet approval for transactions which are beyond its limits. It did so in each of these cases."

"The following additional facts are also pertinent to the cases mentioned and should have been considered in the audit commentary:

"For Project #8, it is unclear whose recommendation was found questionable. If the recommendation is that of the Ministry of Transportation, then the



Comments on Ministry and Crown Agency Audits

3.8 cont'd

response should come from them. If the recommendation is that of ODC, then its advice was that the funding would be 'high risk.'

"For Project #9, there was a six-month window of opportunity for the firm to restructure its operations. While ODC recognized that the investment risks were high, the costs associated with an immediate failure were also significant. Among these was the impact on the local community of the closure of several other major automotive parts manufacturers in the area. While ultimately the firm was unable to overcome its difficulties, the company was able to operate for an additional six months employing over 200 workers.

"In the case of the carpet manufacturer, while the future of an industry may be affected by adverse market conditions and foreign competition, it does not follow that all firms within that industry will fail. ODC should not be accepting the judgement of the individual banks on which industries in Canada have no future. Since the investment was made, the company has discharged a \$12.7 million debt to the receiver eight months ahead of schedule, has met its sales target, and has been profitable. Most importantly, 350 employees were re-hired since start-up and the company expects to hire an additional 25 in the next two months."

Need for Assistance Not Evaluated

"For Project #2, Ministry records show \$73 million (rather than approximately \$100 million) in loans and grants having been approved - a \$35 million repayable loan, a \$15 million training grant, and \$23 million in infrastructure costs.

"[In both Projects #2 and #3], the companies were desirous of locating in Canada, but were in no way committed to an Ontario location. In particular, the Province of Quebec was aggressively competing with Ontario and other Canadian provinces by offering generous financial assistance. In fact, at least two other automobile manufacturers invested in Quebec because Ontario was not willing to match assistance given by that province. Most of the relevant advantages cited in the report are also available from a Quebec location. The fact that another [foreign] company received only minimal assistance does not detract from the substantial benefits derived from the investments made in Projects #2 and #3."

Assurance of Project Success Lacking

"The thrust of the criticism in this section is that projections were not fulfilled. While this is true, it is common knowledge that the unanticipated overcapacity in North American automobile production, together with the recent recession, was not predicted by even the most expert analysts.

"For Project #4, the Report fails to note that the company was accommodating the Province in locating this facility in Collingwood, which had suffered significant employment losses following shipyard rationalizations."



Industry, Trade and Technology Industrial Assistance

3.8 cont'd

Inconsistent Level of Assistance

"It is unrealistic to expect the funding levels on a '\$ per job' basis will not vary from project to project. This is just one of many factors evaluated in the decision on financial assistance. The higher cost per job for Project #2 was primarily the result of an intense competition between Ontario and six other provinces."

Deficiencies in Cabinet Submissions

"For Project #2, with respect to the costs noted:

"The original Cabinet submission did in fact mention infrastructure costs, but the amount had not been determined at that time. The amount was approved at a subsequent Cabinet meeting.

"Provincial sales tax exemptions were available to any eligible manufacturer, and no Cabinet approval was required or requested.

"The selling price of crown land was not below market value for unserved farm land at that time.

"For Project #2, it should [also] be noted that:

"ODC files indicate that the company has met or exceeded production and employment targets.

"The company's Ontario facility was recently rated the top product quality automaker in North America by J. D. Power & Associates."

MONITORING OF PROJECTS

Roles Not Clearly Defined

"Contrary to the Audit Report, the role of ODC in disbursement and monitoring of projects is clearly set out in the Ministry's Manual of Administration (Section No. MA-15-02-05). The monitoring requirements for each project are defined in the loan agreements negotiated after the evaluation and approval process."

Editorial Note: The Manual stated that the ODC is responsible for monitoring projects. However, it provided no details on how this responsibility was to be carried out.

Insufficient Monitoring of Projects

"ODC monitoring is directed at areas such as capital investment and job creation, where the loan agreements provide specific targets which must be met. The monitoring procedures appropriately emphasized those provisions in which undertakings are quantifiable, where specific targets apply and which are therefore



Comments on Ministry and Crown Agency Audits

3.8 cont'd

more readily enforceable. Given limited resources, this was and is a prudent basis for monitoring the agreements."

The Deputy Minister of Transportation responded regarding Project #8 discussed in the Commentary section "Unclear Mandate."

"The Ministry of Transportation was not involved in the 1988 decision to provide a \$1 million loan guarantee.

"In November 1989, the government announced its intention to introduce legislation extending the allowable trailer length from 48 to 53 feet.

"The trailer manufacturers subsequently informed the Ministry that new orders for 48 foot trailers were declining and existing orders were being cancelled pending the passage of the new legislation.

"Two trailer manufacturers approached the government for financial assistance because of the decline in business created by the government's announcement.

"The evaluation of this request included a risk evaluation by ODC.

"The recommendation, after meetings between ODC, Treasury, MITT and MTO representatives, was made in the context of the legislative announcement allowing longer trailers to increase the productivity of the Ontario trucking industry. The recommendation recognized the need to retain the viability of the Ontario trailer manufacturing industry, and this manufacturer in particular, during the period of uncertainty."



Labour

Construction Health and Safety

3.9

Construction Health and Safety Activities, Ministry of Labour

The Construction Health and Safety Branch of the Ministry of Labour administers and promotes compliance with the *Occupational Health and Safety Act* (Act) and its Regulations relevant to construction projects.

The Branch had expenditures of \$10.5 million for the fiscal year 1991 and a staff of 153 employees.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included discussions with Branch officials and staff, visits to 8 of the 14 district offices and a review of 370 inspection files.

We assessed whether:

- a satisfactory system existed for the measurement and reporting of program effectiveness;
- resources were utilized efficiently; and
- staff training was adequate.

CONCLUSIONS AND FINDINGS

RESULTS MANAGEMENT

An unsatisfactory system existed for the measurement and reporting of program effectiveness.

- Measures used represented production indicators and were not appropriate to measure the impact of the program on the work environment.

UTILIZATION OF RESOURCES

Resources were not utilized efficiently.

- Few work plans were prepared by inspectors.
- Numerous priority projects never received an inspection.
- No system was in place to identify repeat offenders of the Act.
- A number of projects were not inspected during the critical early stages of construction.
- The Branch's management information system and information technology required updating to improve service and productivity.



Comments on Ministry and Crown Agency Audits

3.9 cont'd

HUMAN RESOURCES FUNCTIONS

Controls over staff training were satisfactory.

BACKGROUND

The *Occupational Health and Safety Act* and its Regulations provide minimum standards for health and safety concerns at worksites across the province. The Construction Regulations provide specific standards for the construction industry on such matters as: storage and handling of toxic substances on sites; technical specifications on scaffolding, explosives, and cranes; and working conditions for confined workplaces such as trenching, tunnelling, and commercial diving. The Branch promotes compliance with the Act and its regulations by such means as inspections, investigations, consultations and prosecutions.

Since our last audit, the Branch has undergone a major restructuring and was covered by a major inquiry by G.G. McKenzie and J.I. Laskin. Their report issued in 1987, reaffirmed the Ministry's approach to the enforcement of legislation and support of the Internal Responsibility System (IRS). Under this system, the primary onus for compliance with the Act rests with employers and employees.

On July 1, 1991 the Ministry of Labour underwent a major reorganization which management feels will address many of the concerns identified during the audit. In the new structure the Act is administered and enforced through a regional organization headed by six area directors and supported by the Health and Safety Technical Support Branch.

COMMENTARY

RESULTS MANAGEMENT

In September 1988, Management Board introduced a new directive on program effectiveness entitled "Results Management". The purpose of this directive is to increase the awareness of the need for ministries to continuously evaluate the effectiveness of their programs.

Results Management is an ongoing monitoring and reporting process requiring ministries to:

- set clear objectives and targets to meet those objectives;
- monitor whether these targets are being achieved efficiently; and
- periodically evaluate the relevance of ministry programs, objectives and targets.

Program Effectiveness Measures Not Satisfactory

The primary objective of the Branch is:

"To reduce the risk of illness, injury and death in the construction, commercial diving and window cleaning industries, by ensuring a healthy and safe occupational environment throughout the Province of Ontario."



Labour

Construction Health and Safety

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While this mandate sets out the direction of the Branch, its comprehensive nature makes it difficult to develop useful, clear, and accurate targets to measure the attainment of this objective. In particular there are many factors beyond the control of the Branch which influence its ability to reduce accidents in the Province. For example, the attitude of employers and employees toward health and safety issues is an important factor in the reduction of accidents. In addition, other organizations, such as the Workers' Compensation Board and the Construction Safety Association also have an impact on the reduction of accidents.

The interrelationships of the various programs and activities of these organizations make it extremely difficult to measure the actual effect that Branch activities alone have had on the reduction of accidents. However, the collective effort of the Branch and the other organizations have had a positive effect on the reduction of accidents in the province over several years, as evidenced by injury statistics produced by the Construction Safety Association.

Despite the inherent difficulties in measuring the Branch's impact on accidents, we concluded that the Branch's reporting system could better measure and report on the program's effectiveness. **The measures and targets used by the Branch, while providing useful information on the program's activities, were not effective in measuring the impact of the program on the work environment.** For example, such measures as: the number of site inspections completed in a period; the number of investigations performed; total orders issued; and, the number of prosecutions completed, were more representative of measures of operational performance than measures of program effectiveness.

To be effective, the measures must relate directly to Branch activities. The main activities used to meet the Branch's objectives are:

- enforcement of the Act and Regulations;
- promotion of the Internal Responsibility System (IRS); and
- education/awareness of key health and safety issues.

We suggested that for each of these activities, the Branch develop targets which could be monitored and reported upon. For example, measures for the enforcement activity could include targets set for the:

- percentage of compliance to the Act and Regulations by active high risk worksites, or constructors;
- reduction in the number of high risk worksites or constructors; and
- reduction in specific types of loss time injuries or accidents.

Such targets would allow the Branch to allocate resources more efficiently and to monitor its ability to achieve targets and thereby aid in reducing accidents through enforcement. This integration of results information into the decision making process would also assist in providing greater management direction to the program.



Comments on Ministry and Crown Agency Audits

3.9 cont'd

The Branch has previously used such methods informally, to successfully target and monitor such hazards as: falls due to lack of guardrails and fall arrest systems; trench collapses from faulty shoring; and accidents from poorly constructed scaffolds. However, the base used in setting these informal targets was derived from information on fatalities, which only represent a small portion of the incidents at worksites, and are generally beyond the Branch's control.

We suggested that a more appropriate base would be information on accidents or lost time injuries. While the existing information system was inadequate for the collection of such data, information of this type was available from the Workers' Compensation Board (WCB). This information could provide a strong base from which to develop targets and perform trend analysis. The Branch already recognized the value of WCB information, and had used it to identify 40 of the worst health and safety offenders in the Province.

UTILIZATION OF RESOURCES

The administration of the *Occupational Health and Safety Act* is guided by the Act's underlying philosophy of self-compliance, known as the Internal Responsibility System (IRS). As noted previously this philosophy places primary responsibility for the control of occupational risks with those who are most affected by such risks: the employer, the site supervisor, and the employee. The success of the system is contingent upon the commitment and the awareness of responsibilities by these individuals, and, to some extent, the presence and the support of this concept by ministry personnel in the work place.

The Branch enforces and promotes the IRS by such means as routine inspections of construction projects, prosecution of violators, and consultations on safety issues with constructors, construction workers, industry sectors, labour management groups, and the public.

Controls over Staff Utilization

The Branch had methods in place to manage its staffing cost. However, we noted several deficiencies that affected the Branch's ability to efficiently utilize its inspectors and their activities. These areas included:

- lack of workplans prepared by inspectors and approved by management to direct their activities in the most efficient manner;
- lack of controls to ensure that all priority projects were inspected; and
- lack of controls surrounding the timing of inspections to coincide with periods in which the highest potential for risk of injury exists at worksites.



Labour

Construction Health and Safety

3.9 cont'd

Work Plans Not Prepared

Work plans are the planned scheduling of work activities by inspectors for the near future (i.e. weekly). Branch policy places responsibility for such planning on the inspectors in consultation with their manager.

We found that few inspectors prepared work plans. Of those inspectors who did prepare work plans, none were reviewed by their managers.

The only method used by managers to ensure adequate coverage of projects was an after the fact review of the inspectors' weekly running sheets (weekly time summaries). While this method allowed managers to provide some measure of guidance to assist inspectors, it was of limited value as inspectors normally would not be returning to the same site or area for some time.

We felt that inspectors should be able to estimate when sites should be re-inspected and therefore be able to prepare work plans for routine inspections of ongoing projects. We recognized that workplans could not be static and would change as incidents arose. However, where variance between actual inspections and the workplans occurred, explanations should be provided and changes made to future plans.

Priority Projects Not Inspected

Branch policy requires criteria to be used in determining the priority and frequency of inspections. For example:

- size of project and workforce;
- outstanding and previous orders issued;
- type of hazard and degree of risk associated with a specific site;
- complexity of project;
- presence of designated substances; and
- effectiveness of health and safety representative or committee.

The size of the project and workforce criterion has a major impact on prioritization of inspections. **We reviewed a representative sample of files and found, however, numerous cases where sites which met the size of project and workforce criterion were not inspected.** For example, of the 370 inspection files audited, 85 had not received an inspection. Of these 85, almost half were projects valued greater than one million dollars.

No System to Identify Repeat Offenders

One of the most effective methods of proactive work is the targeting of repeat offenders. Repeat offenders are those individuals, constructors and supervisors, that continually violate provisions of the Act and its Regulations. Disregard for legislation and for the safety of workers lead to accidents.



Comments on Ministry and Crown Agency Audits

3.9 cont'd

However, during the period under review, the Branch had no system in place to identify repeat offenders. Instead it relied on the experience of individual inspectors to identify problem areas. As a result, with the exception of follow-up actions taken by individual inspectors, important proactive work such as consultations with the offending companies and more frequent and rigorous inspection of their projects, was not being done.

Timing of Inspections Can Be Improved

Inspections should be planned to ensure that they take place when the greatest amount of activity or risk of injuries exists at the various worksites. The McKenzie-Laskin Report recommended:

"The regions should be provided with the capability to analyze accident and injury trends for each workplace, to identify problematic establishments, and to schedule and target inspection visits."

Our discussions with managers indicated that the highest risk of injuries occurs during the first 50 per cent of a site's completion. **However, our audit of inspection files found that 88 of the projects tested did not receive an inspection during this period.**

On the other hand, we found a number of inspections on inactive sites.

The opportunity exists to develop a system to plan inspections during the first half of construction by using such information as the description, size and estimated starting dates provided by constructors in Notice of Project forms.

Information Technology

The McKenzie-Laskin Report noted that:

"The Division's information system and computer technology should be reviewed and modernized to meet the needs of users, consistent with the Division's role and organization.

"Management information systems and information technology must be a high priority in any organization, and particularly, in the Division, where the efficiency and effectiveness of the inspectors is being challenged. Complaints about the inspection process, the capacity to plan workloads, and access to timely and accurate information, are all symptoms of an underlying problem—inadequate management information systems and information technology."

This problem of "inadequate management information systems and information technology" continued to exist at the time of our audit. The principal recommendation made by the report regarding information technology has never been fully implemented. **For example, the Branch had not fully developed or utilized a computerized data base.**



Labour

Construction Health and Safety

3.9 cont'd

Under the existing manual system, all Project Inspection Reports were filed by project with no system of cross referencing to identify various projects controlled by a specific constructor. Different project files by the same constructor may have been located at several district offices, each corresponding to the district in which the project was located. Thus it was impossible for the Branch to determine whether similar contraventions had occurred at various sites under the control of the same constructor, whether it be within a district, or across the Branch.

As previously noted, the Branch has used as an alternative, WCB's system to identify the 40 worst safety offenders in the Province. However, the information provided by this system was usually one year behind, and was solely based on accident claims. Therefore its usefulness to the Branch for the performance of proactive work was limited.

The lack of a computer data base limited the ability of managers to monitor inspections. Under the existing manual system, the determination of risks of projects, the stage of completion of sites, and the ability to provide input on the scheduling of inspections required managers to review individual project inspection files. This was both time consuming and ineffective.

One district office was able to overcome this problem by developing a manual log on projects. This manual log served the function of a data base by listing the inspections made at a site and identified both the stage of completion and date of the inspection. However, updating this log was both slow and tedious and therefore limited its effectiveness.

We observed that minimal computer technology was available in district offices and no computers were being used in the field. Many of the activities of the Branch continued to be completed on a manual basis.

We were informed by management that a new Ministry-wide information system was being developed and as of July 1, 1991 phase one of the three phase system was being implemented. Full implementation of the system will take several years.

HUMAN RESOURCES FUNCTIONS

In July 1989, the Human Resources Secretariat introduced guidelines for the auditing of human resources management within the Ontario Public Service. These guidelines were used to audit Branch training.

Satisfactory Controls over Staff Training

The McKenzie-Laskin Report was highly critical of the training function, and in particular that of the Construction Health and Safety Branch. At the time of their Report, Branch training was virtually non-existent.



Comments on Ministry and Crown Agency Audits

3.9 cont'd

In our review of the training function we found that the main recommendations made in the Report had been implemented, and included:

- implementation of a formal training policy for new inspectors including a formalized six month on-the-job training program;
- development of core courses;
- mandatory testing of participants receiving training courses; and
- ten days annual training for each inspector to upgrade training and professional development.

As a result of our testing we concluded that satisfactory procedures existed for the development, implementation, and monitoring of training courses. For example:

- courses reflected the identified need for which they were developed; and
- training activities supported Branch objectives.

RESPONSE

The Deputy Minister's response included the following comments.

"During the past fiscal year, the Ministry has undergone a comprehensive strategic planning initiative. This initiative has resulted in a new organizational structure which will allow for improved program delivery, a more precise assessment of the Program's effectiveness, and the utilization of advanced information technology to ultimately ensure enhanced client services."

RESULTS MANAGEMENT

Program Effectiveness Measures Not Satisfactory

"The Construction Health and Safety Program recognizes and acknowledges the need for a systematic approach to developing a mechanism to address and continually evaluate the effectiveness of its measures of Program activities. The Program would point out that there are inherent difficulties in developing and implementing this, especially when quantitative measures of program effectiveness are used as a means of achieving its mandate. Part of the difficulty resides in the identification of meaningful measures of program effect which adequately provide a means of assessing program effectiveness. The Program recognizes the variables input by other parties, particularly the synergistic relationships developed between the various organizations contributing to the fulfilment of the Branch's mandate and primary objective."



Labour Construction Health and Safety

3.9 cont'd

UTILIZATION OF RESOURCES

Controls over Staff Utilization

Work Plans Not Prepared

"We acknowledge the absence of formalized work plans controlling the activities of inspectors. It has been the practice of the Branch to evoke the concept of self-directiveness in their employees, particularly when assessing workload requirements or pressures, while at the same time maximizing priority inspections by each Construction Health and Safety officer. These inspections are not only based on the individual inspector's knowledge and assessment of the needs of any particular geographic area they are assigned to, but also may be made on the basis of the combination of individual, team inspectorate or management consultations, and the review of the daily incident log, which captures Ministry notification of events.

"Monitoring, to achieve effective time allocation, is accomplished through the continual review of Project Inspection Reports, weekly activity sheets and occurrence reports by the officer and manager. This process not only identifies changing workload requirements, but has allowed for the targeting of various trade sectors when appropriate, management review of the various client needs and inspector activities, and suitable workplace coverage by the available inspector resource base serving that area.

"In accordance with Branch Policies and Procedures, a determination concerning priority assigning of reactive workload was largely determined by Ministry event notification of fatal, critical, minor accidents, occurrences, work refusals and reprisals, in consultation with the District Manager and Inspectorate team.

"In recent years, increasing client demand, the introduction of changing and new legislation, combined with a fairly static Inspector complement have created new operational pressures which have increasingly restricted many of the Branch's initiatives to address proactive workload.

"The Program recognizes the need to continue to develop workplan initiatives which will utilize the new merged Information System, particularly in the context of the Division's Operational Planning."

Priority Projects Not Inspected

"The Branch would point out that 'priority projects' are largely determined on the basis of an assessment of the potential risk(s) associated with the project, and not dollar value alone. Past history of non-compliance by a constructor or knowledge that health and safety control mechanisms are in place on larger construction sites are other factors which are considered when determining the priority of inspection activities. With the implementation of the Ministry's computerized Merged Information System (MIS), the establishment of priorities related to project inspections involving high risk factors will be facilitated more easily and routinely. The Ministry's restructuring has also allowed for the establishment of a new organizational framework within the Ministry which will assist with the ongoing identification and assessment of existing and emerging health and safety risks on construction projects throughout the province."



Comments on Ministry and Crown Agency Audits

3.9 cont'd

No System to Identify Repeat Offenders

"The Branch acknowledges that 'targeting of repeat offenders' is one of several options for developing proactive initiatives, and it agrees that the development of more systematic targeting methods is necessary. The targeting of repeat offenders has been developed and incorporated within the MIS; its use will assist in striking an effective balance between proactive and reactive staff assignments."

Timing of Inspections Can Be Improved

"The Ministry has developed (the MIS) to assist with the identification and analysis of accident and injury occurrences and trends affecting its inspection activities. The Branch acknowledges that degrees of risk fluctuate during the life-cycle of various construction project types. Historically, trends identified by the Branch were subsequently monitored through the use of injury statistics compiled on the basis of number and type of occurrences. This monitoring of construction industry trends led to the development of targeted inspections in high risk areas, such as falls, trench cave-ins and electrocutions. By monitoring the incidence of these accidents types and their respective historical trends, targeted programs or 'blitzes' were developed by the Branch to diminish the incidence of these injury types on specific construction projects. For example, . . . by applying this targeting philosophy, the percentage of fatalities involving falls diminished by 5% in one year (1989 vs. 1990).

"Regardless of when most accidents occur during the life cycle of a particular project type, it is expected that the use of the MIS will allow for timely and appropriate inspections and consultations during all phases of construction projects.

"It has always been the position of the Branch to apportion its operations activities to include proactive initiatives whenever possible, particularly during the initial stages of complex construction projects. Pre-construction meetings, consultations and technical reviews were, and still are, and will be an essential part of the program delivery."

Information Technology

"The Branch acknowledges that the system in use during the time of this audit did not provide enough information to systematically identify repeat offenders, schedule inspections to coincide with risks at workplaces, and to efficiently utilize available resources.

"However following the identification of these shortcomings by the Branch the Operations Division, in consultation with other former line branches, implemented . . . the Merged Information System effective July 1, 1991. This milestone was marked by the systems development, associated training, and the gathering and input of data in the system (Phase I). The existing 'Prosecution Tracking System' (an ORACLE software-based order and prosecution tracking system) was initiated in the Branch in 1988, and it continues to serve as a basis for the development of the prosecution component of the MIS for the entire Ministry. Implementation of the MIS Prosecution Tracking Subsystem is scheduled to occur in Phase III.



Labour Employment Standards

3.9 cont'd

"The MIS will enable all Ministry staff to perform their duties and serve their clientele in a more informed and knowledgeable manner, and provide better, more efficient service to the industry.

"The MIS is end-user oriented, and will ensure better client service by systematically and more accurately determining workload requirements, targeting of inspection activity, and instantaneous information sharing between all levels of Ministry personnel.

"Phase 1 of the MIS began on July 1, 1991 and Phases 2 and 3 are scheduled to be implemented in 1992 and 1993 respectively."

3.10 Effectiveness Measures and Resource Utilization, Employment Standards Branch, Ministry of Labour

The Employment Standards Branch of the Ministry of Labour administers and promotes compliance with the *Employment Standards Act* (Act), participates with employers and employees in the development of wage rate and conditions of employment schedules under the *Industrial Standards Act* and administers fair wage schedules for government contracts. The Branch had expenditures of \$12.2 million for the 1991 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included discussions with Branch officials and staff, visits to six of the ten regional offices and a review of 360 completed investigations.

We assessed whether:

- a satisfactory system existed for the measurement and reporting of program effectiveness;
- resources were utilized efficiently; and
- staff training was adequate.

CONCLUSIONS AND FINDINGS

RESULTS MANAGEMENT

An unsatisfactory system existed for the measurement and reporting of program effectiveness. Targets established related more to staff productivity than to program effectiveness.

UTILIZATION OF RESOURCES

Utilization of resources was unsatisfactory.



Comments on Ministry and Crown Agency Audits

3.10 cont'd

- The Branch had virtually abandoned routine inspections despite their effectiveness in uncovering violations.
- Audit procedures were frequently not extended when violations of minimum standards of employment were found.
- Prosecutions had been virtually non-existent, creating little incentive for employers to voluntarily comply with the Act.
- Claimant investigations were not completed on a timely basis, taking an average of 85 days to resolve.
- Some claims were given priority status even though it was not warranted.
- Computer and communication technologies were inadequate in the regional offices.

HUMAN RESOURCE FUNCTION

We found that the training of staff was inadequate.

BACKGROUND

The major activity of the Branch is the enforcement of the *Employment Standards Act*. This Act and its Regulations establish minimum standards of employment, covering wages and working conditions such as: minimum wage, overtime, equal pay, vacation pay, pregnancy leave, termination notice and severance pay. The majority of the Ontario workforce rely on the Act and its enforcement for protection of their employment rights.

The Branch promotes compliance with the Act through the investigation and resolution of complaints, branch initiated inspections and public education. These services are provided by ten regional offices located throughout Ontario.

On July 1, 1991 the Ministry of Labour underwent a major reorganization which management feels will address many of the concerns we have identified. In the new structure the Act is administered and enforced through a regional organization headed by six area directors and supported by the Employment Practices Branch.



Labour Employment Standards

3.10 cont'd COMMENTARY

RESULTS MANAGEMENT

Measuring and Reporting of Program Effectiveness Unsatisfactory

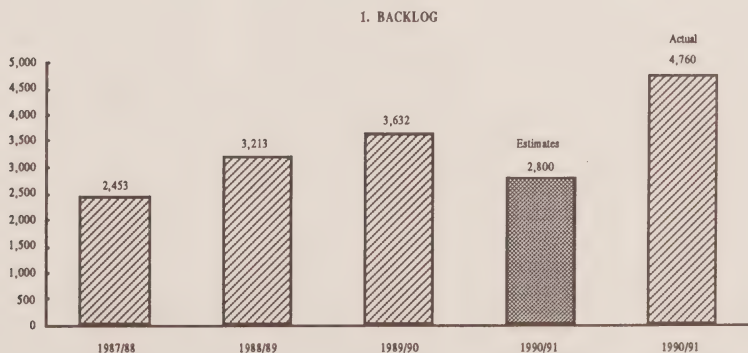
The onus for compliance with the *Employment Standards Act* rests with employers. As a result, the Branch cannot be expected to detect all employer violations of the Act but can only develop actions to minimize non-compliance.

In order to measure the Branch's ability to "promote compliance" with the Act, the Branch requires targets which show whether employers are complying with the Act and, specifically, the impact of the Branch's activities on compliance. However, the statistical information produced by the Branch was more like a detailed analysis of investigations conducted than a measure of compliance with the Act.

A major production target used by management was the number of file closures per day, per officer. However, this measure provided no indication of employer compliance. A reduction in the percentage of violations found during routine investigations would have been a more appropriate target. This measure could then have been monitored to give the Branch an indication of their success in promoting compliance.

The statistics produced provided some evidence of the nature and extent of non-compliance. However, no effort had been made to extrapolate these results over total employer segments to determine whether overall compliance was fluctuating. Without this type of information, the Branch was not able to allocate its resources to those areas which could have had the greatest impact on compliance.

In the 1990-91 Estimate submissions, Branch staff had set targets for case completions, case backlogs and routine inspections. The first graph indicates the pressure on the Branch to resolve claims on a timely basis. The second graph indicates the decrease in proactive enforcement.

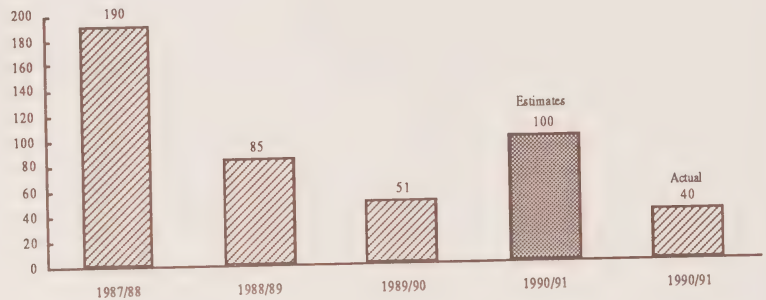




Comments on Ministry and Crown Agency Audits

3.10 cont'd

2. ROUTINE INSPECTIONS



As indicated by the 1990-91 actual results, the targets were unrealistic and were not close to being achieved. We found that Branch management was not aware of these targets and thus they were not monitored or used in the management of Branch activities.

UTILIZATION OF RESOURCES

PROACTIVE ENFORCEMENT

The Branch proactively enforces the *Employment Standards Act* by conducting routine inspections of employers, auditing payroll records beyond those of the particular claimant, and through public appearances.

The Branch had completed the following work over the past three fiscal years:

| | Fiscal 1989 | Fiscal 1990 | Fiscal 1991 | Total |
|----------------------------|-------------|-------------|-------------|--------|
| Claim File Completions | 18,312 | 19,027 | 18,582 | 55,921 |
| Routine Inspections | 85 | 51 | 40 | 176 |
| Audits Beyond the Claimant | 1,795 | 1,768 | 1,563 | 5,126 |
| Public Appearances | 225 | 222 | 253 | 700 |

Claim file completions relate to the investigation and resolution of claims filed by employees alleging a violation of the Act by their employer. A violation is found to exist in about 70 per cent of the claims. However, 95 per cent of employees only file a claim when they are no longer working for that employer. There are many reasons why employees will not come forward, the most common being the fear of losing their



Labour Employment Standards

3.10 cont'd

job in retaliation for filing a claim. Therefore, many employees rely on proactive enforcement of the Act to identify and deal with violations.

Branch Initiated Inspections Insufficient

Routine inspections include random audits of high risk employers and follow-up inspections of those who have had previous violations. **Our audit found that the Branch had virtually abandoned routine inspections due in part to a shortage of resources.** As indicated in the foregoing table, routine inspections represented a very small element of the Branch's activities.

However, when targeted inspections were conducted they had been very effective, uncovering violations in 50 per cent of the cases. While high-risk employers were normally targeted, the high percentage of violations discovered strongly confirmed the likelihood of non-compliance with the Act by employers in this category.

Stronger Enforcement Needed

If a violation is found during an investigation there are two types of audits that can be done beyond the claimant's file:

- A test audit, which requires the field officer to check the payroll records of three employees for three months to determine what further review is required.
- A full audit, which requires the officer to check all employee payroll records for the last two years in order to make a complete assessment of that employer.

The purpose of these audit procedures is to determine if other employees should also benefit when a specific violation is found, or if the employer is in violation of other conditions of employment.

Branch policy requires that:

- evidence be kept on file to support test audits, so that regional managers can ensure that they have been adequately performed; and
- audit procedures beyond the claimant be performed for minimum standard claims such as minimum wage, overtime and public holiday pay.

We reviewed 360 claim files at six of the ten regional offices. We noted the following:

- 37 of these claim files indicated that a test audit was conducted but only 18 had evidence in the files to support the work done.
- **97 of the files examined contained minimum standard claims but only 36 were audited beyond the claimant.**
- Only one region visited was consistently auditing beyond the claimant.



Comments on Ministry and Crown Agency Audits

3.10 cont'd

This action was very effective. For example, we observed that 13 of 18 audits resulted in 137 additional employees benefitting by over \$31,000. In the other five regions, we were informed that Branch audit policy was not followed due to a lack of resources. Large backlogs of files to be investigated pressured the regions to just service the claims as quickly as possible.

We also noted that officers used the telephone to try to resolve all potential violations of the Act. Telephones are often an efficient method to close files but they are clearly inappropriate in the case of minimum standard violations. For example:

- An officer investigating an overtime violation could have quickly resolved the file over the telephone by accepting the employer's offer to pay 30 employees a total of \$9,000 for overtime owing. However, the officer visited the employer and conducted a full audit resulting in payments to 102 employees totalling \$75,000.

PROSECUTION UNDER THE ACT

The Act provides for penalties of up to a maximum of \$50,000, but prosecuting employers is a costly and cumbersome process and provides no guarantee that penalties will be collected. However, a certain level of prosecution will support enforcement by:

- promoting voluntary compliance with the legislation;
- deterring repeat and flagrant violators; and
- informing the public of their rights and obligations under the Act through media coverage.

Prosecution Rate Inadequate

Prosecution of employers under the Act had been virtually non-existent. Over the past three years violations were found in 38,915 claim files, but only 70 prosecutions of employers were pursued, resulting in 44 convictions.

We found during our audit that:

- employers were not prosecuted for repeat or flagrant violations of the Act unless they were also refusing to pay an outstanding Order-to-Pay. If the Order was settled the prosecution was withdrawn;
- officers were reluctant to recommend that an employer be prosecuted because they felt that the Branch would never pursue it. Therefore, no procedures were available to effectively deter repeat violators from continuing to disregard the legislation; and



Labour Employment Standards

3.10 cont'd

- there was no system in place to identify, or track for prosecution, employers who repeatedly violated the Act. Also, claim files were only kept for two years which made it more difficult to build a strong case for prosecution, especially when no tracking system existed.

Although many violations did not warrant prosecution, the low rate of prosecution provided little incentive for employers to comply with the Act.

CLIENT SERVICE

Completion of Claimant Investigations Not Timely

| | Fiscal 1989 | Fiscal 1990 | Fiscal 1991 |
|--------------------------------------|-------------|-------------|-------------|
| Claim File Completions | 18,312 | 19,027 | 18,582 |
| Year End File Backlog | 3,213 | 3,632 | 4,760 |
| Days to Complete a Claim | 70 | 77 | 85 |
| File Completions Taking over 90 Days | 26% | 29% | 38% |

As indicated by the data in the chart, the Branch had been increasingly unable to complete its investigations on a timely basis.

Unwarranted Priority Assigned to Claims

The vast majority of claims are filed in person at a regional office or received through the mail. In addition, some claims are initiated by a claimant contacting their Member of the Provincial Parliament, the Minister of Labour or the Director of Employment Standards. However, these latter files should not receive any priority over other claims unless the circumstances warrant it. For example, a priority status is reasonable for a claim which may result in the reinstatement of a dismissed employee. Such cases must be investigated as soon as possible because as time passes the potential cost to the employer and employee increases.

During our audit we reviewed 20 files that were received through the aforementioned channels and given priority status over other files. Only three of these files should have been investigated on a priority basis because of the nature of the issues. Furthermore, discussions with officers confirmed that the assignment of special status is usually not warranted.



Comments on Ministry and Crown Agency Audits

3.10 cont'd

ADMINISTRATIVE MATTER

Inadequate Computer and Communication Technologies in the Regions

In the Ministry's 1989/1990 Information Technology Strategic Plan, the benefit of further investment in information technology to improve the service provided to the public was clearly noted. The Plan also stated that "the Ministry promotes and supports the concept of end-user computing."

Our audit found that minimal computer technology was available in regional offices and that very few portable computers were used in the field. Many regions were still using manual file logs even though a computerized log had been running for three years in one region.

Discussions with officers identified a need for personal computers to assist in performing daily activities. For example:

- Word processing software would enable officers to create their own correspondence. In some regions it can take up to three weeks to have a letter typed.
- Spreadsheet software would relieve officers of the time consuming task of manually calculating monies owing to claimants.

The Branch also needed to update its communication technology. Electronic communications, such as pagers and portable phones, would allow two-way communication between regional offices and officers in the field. Officers relied heavily on telephone communication in their dealings with the public, but it was very difficult to reach them. Calls to officers at regional offices had to go through a main switchboard which was extremely busy. This was very time consuming and frustrating for the caller. Only one region had installed direct lines and a voice mail system.

HUMAN RESOURCE FUNCTION

An effective training program is critical to ensuring that staff have the necessary skills to meet the current and future needs of the organization. Identification of individual and group training needs is based on the skills and knowledge required for current positions and for developmental purposes. Training is particularly important to officers due to the:

- absence of a procedural manual;
- enforcement of complex and changing legislation; and
- continual interaction with the public.



Labour Employment Standards

3.10 cont'd

Inadequate Staff Training

While the need to train new officer recruits had been recognized and an adequate introductory course had been given in the past, the course was not offered in the period between October 1989 and January 1991. During this time the Branch hired 20 new officers who were expected to learn their job responsibilities through "hands-on" field experience until the course was eventually offered.

We found that there was no formal system to identify the training needs of established officers. **After they had completed the introductory training, officers were unlikely to receive any formal training from the Branch.** During our regional audits, officers identified a variety of training needs such as:

- methods for analyzing computer payroll systems;
- investigative and negotiating skills; and
- legal interpretations and enforcement procedures for various sections of the Act.

Many officers also lacked adequate training to enforce complex sections of the legislation, such as those relating to pregnancy, Sunday shopping, equal pay and insolvencies. For example, one regional office was holding five equal pay files until someone with the expertise was available to assist them in the investigations.

RESPONSE

The Deputy Minister responded to our audit report.

"As of July 1, 1991, the Employment Standards Program within the Operations Division of the Ministry of Labour replaced the former Employment Standards Branch for which the audit was conducted.

"During the past fiscal year, the Ministry has undergone a comprehensive strategic planning initiative. This initiative has resulted in a new organizational structure which will allow for improved program delivery, a more precise assessment of the Program's effectiveness, and the utilization of advanced information technology to ultimately ensure enhanced client services."

RESULTS MANAGEMENT

Measuring and Reporting of Program Effectiveness Unsatisfactory

"The Operations Division has initiated, as part of its restructuring, a strategic and operational planning process which will form the base of a results management system. This planning process involves the setting of clear objectives and targets designed to meet client needs, and incorporates a review mechanism to monitor client service and program results for achievement of targets."



Comments on Ministry and Crown Agency Audits

3.10 cont'd

UTILIZATION OF RESOURCES

PROACTIVE ENFORCEMENT

Branch Initiated Inspections Insufficient

"The Employment Standards Program has been largely complaint driven and field resources have for the most part been devoted to work initiated by increasing numbers of employee claims. The Ministry recognizes the importance of proactive enforcement. A Divisional working group has been formed to develop strategies to address workload management issues both in the short term and incrementally over the long term."

"In order to enhance the effectiveness of proactive enforcement programs, the recently developed microcomputer database on closed files will be analyzed to identify potential violator populations both by industry and by employer size."

"The Ministry is currently developing a minicomputer-based system capable of maintaining employer profiles and histories, and will be used to better target proactive inspections."

Stronger Enforcement Needed

"The Ministry will be undertaking an assessment of means of enforcement. The assessment must examine not only techniques involving full and test audits but also, given limited field resources, other approaches that may be effective in identifying violations and bringing about and maintaining compliance with employment standards legislation."

PROSECUTION UNDER THE ACT

Prosecution Rate Inadequate

"The Operations Division is currently developing a new prosecution policy which will seek to identify those cases where prosecution will be the most effective in both deterring specific offenders and obtaining fines which will serve as a general deterrent to violations of the Employment Standards Act."

CLIENT SERVICE

Completion of Claimant Investigations Not Timely

"The Ministry recognizes that timely service to clients is of utmost importance and has established a Divisional working group to propose measures and develop plans and strategies, both short term and long term, to provide effective and efficient service to clients."



Women's Issues

Ontario Women's Directorate

3.10 cont'd

Unwarranted Priority Assigned to Claims

"The criteria for giving priority consideration to certain claims will be reviewed."

ADMINISTRATIVE MATTER

Inadequate Computer and Communication Technologies in the Regions

"The need for more information technology within the Operations Division has been identified and incorporated into the Ministry's approved information technology strategic and operational plans, and is currently being implemented within the context and parameters of those plans."

HUMAN RESOURCE FUNCTION

Inadequate Staff Training

"The Ministry is strongly committed to training under its new culture and structure. Training needs for employment standards field staff are being re-evaluated. Also, existing Ministry training resources are now corporate in scope and application, and are now available to employment standards program staff, and will be used to the extent necessary to meet all training needs."

3.11

Effectiveness Measures, Ontario Women's Directorate, Office Responsible for Women's Issues

The Ontario Women's Directorate was established as a central agency within the Government of Ontario to co-ordinate the development, delivery and communication of programs and policies to enhance legal, social and economic equality for women in Ontario. Program and policy recommendations are made through the Minister Responsible for Women's Issues.

For the 1991 fiscal year expenditures totalled \$18 million, with about 40 per cent representing transfer and other payments to ministries and local groups.

SUMMARY

SCOPE AND OBJECTIVES

We examined a representative sample of documents and transactions at the Directorate, and held discussions with senior personnel.

We assessed whether:

- the Ontario Joint Family Violence Initiatives program was being delivered by the Directorate and the participating ministries according to plan and within the approved budget;



Comments on Ministry and Crown Agency Audits

3.11 cont'd

- funds from the Employment Equity Incentive Fund and Community Grants programs were awarded to projects which met eligibility criteria and were spent by the recipients for the purposes intended; and
- satisfactory systems were in place to measure and report on the effectiveness of these three programs.

CONCLUSIONS AND FINDINGS

We concluded that the Ontario Joint Family Violence Initiatives were delivered satisfactorily by the Directorate according to plan and within the approved budget.

Similarly, we were satisfied that funds awarded for projects under the Employment Equity Incentive Fund and Community Grants programs met eligibility criteria and were spent by the recipients for the purposes intended.

The systems to measure and report on the effectiveness of these three programs were less than satisfactory.

BACKGROUND

The Directorate is involved with government and external organizations, and has a staff complement of about 85. Within government, the Directorate works with individual ministries and agencies to develop policies, programs, and legislation of benefit to women. Outside the government, the Directorate works with women's organizations, business, labour and community groups to produce and deliver programs benefiting women.

COMMENTARY

ONTARIO JOINT FAMILY VIOLENCE INITIATIVES

In April 1986, Management Board approved the Ontario Joint Family Violence Initiatives program. This was to be a five-year Program with three broad objectives:

- to reduce the incidence of wife assault;
- to provide protection for victims of wife assault and support for family-focused services; and
- to provide a co-ordinated network of comprehensive services to effectively utilize community and government resources in dealing with wife assault.

In November 1990, Cabinet approved these Initiatives as a permanent program and changed the name to Ontario Wife Assault Prevention Initiatives.

In 1986, the Program started out with 20 initiatives delivered by nine ministries. Individual ministries are mandated to deliver the funded projects and services under the Program. By early 1991, this Program had grown to 23 initiatives.



Women's Issues

Ontario Women's Directorate

3.11 cont'd

In addition to the funds allocated through the Directorate, individual ministries may contribute funds from their base budgets to support a variety of projects and services related to wife assault. These additional funds and projects are not monitored by the Directorate.

We were satisfied that the Directorate was delivering the Program according to plan and within the approved budget. Procedures were in place for the ministries to report on the services delivered under their initiatives and the related cumulative costs.

Effectiveness Measurement

We noted that there were no procedures to measure the overall effectiveness of the initiatives in meeting the Program's objectives.

Up to the time of the audit, of 23 individual projects and services under the Program only eight evaluation studies had been undertaken. In addition, major flaws in the evaluation process were noted by a consultant in a report prepared for the Directorate in November 1990. The report concluded that:

- The evaluations represented only individual reports on individual programs. They had not been linked to any overall evaluation plan for the initiatives as a whole and its three objectives. Because no overall plan existed for such an evaluation, it is unlikely that an evaluation of the first five years could be more than a summary of the progress, achievements and impacts attributed to individual programs.
- Some of the most significant services, such as the Ministry of Community and Social Services' shelter-related funding, had not been evaluated.

The approval of the Initiatives as a permanent program makes it more critical that the overall effectiveness of the various initiatives and delivery mechanisms be reviewed, to ensure funds are used in the best possible manner.

EMPLOYMENT EQUITY INCENTIVE FUND

The Employment Equity Incentive Fund provides grants to employers in the broader public sector on a cost-shared basis. The purpose of these grants is to accelerate adoption of employment equity initiatives which have been designed to improve the economic status of women and support their participation in the workplace. The broader public sector covered by this program includes school boards, municipalities, hospitals, colleges and universities.

The Directorate co-ordinates the Fund, which is administered by the participating ministries responsible for delivering the program in the broader public sector. The Fund was initially established by Management Board in 1984 for a two-year period, with an allocation of \$4.3 million. In 1986, Management Board extended the funding for a further five years for an additional \$12.3 million.



Comments on Ministry and Crown Agency Audits

3.11 cont'd

Directorate records indicated that from inception to September 1990, the following organizations had participated in the program:

| | |
|----------------|------------|
| School boards | 144 |
| Hospitals | 181 |
| Municipalities | 30 |
| Colleges | 23 |
| Universities | 18 |
| | <u>396</u> |

Transfer payments totalling approximately \$2.2 million were made during the 1990 fiscal year to these organizations. We examined, on a sample basis, funding of \$1.5 million provided to municipalities, colleges and universities.

We were satisfied that funds awarded to municipal and college projects met eligibility criteria and were spent by the recipients for the purposes intended. Procedures were in place to ensure proper selection, approval of applications and the reporting by fund recipients.

We were unable to assess whether development grants provided to the university sector met funding eligibility criteria as the supporting documentation was not available at the time of our review.

Measuring the Effectiveness of the Program

In the Management Board submission for funding, the Directorate accepted responsibility for evaluating the effectiveness of this Fund on an annual basis. In memoranda of understanding between the Directorate and participating ministries, the evaluations were to be completed by the ministries.

Under the terms of the funding agreement, the ministries were to receive year-end reports from the recipients to ensure that the projects funded were implemented according to the funding proposals. In addition, organizations were required to collect and submit to the funding ministry, workforce data including gender trends and salary scale, data on competitions (recruitment) and staff development and training.

The ministries were to analyze and summarize this data in annual reports to the Legislature. The data collected was also to be forwarded to the Directorate. Ministries indicated that they were generally experiencing difficulty in collecting data on competitions, staff training and development.

We noted that:

- **The year-end reports submitted by the recipients would not be useful as a means of assessing the effectiveness of the program** since they primarily focused on how the funding was spent on implementing the initiatives.
- Only the Ministry of Education submitted annual reports to the Legislature which provided comparisons and analysis of trends of the workforce data collected. **The Directorate and other participating ministries**



Women's Issues

Ontario Women's Directorate

3.11 cont'd

published studies and employment statistics periodically, but these publications did not measure how effectively the program was achieving its objectives.

In March 1988, the Directorate conducted a survey of employment equity program co-ordinators in municipalities, hospitals, school boards, colleges, universities and selected Crown agencies, to capture an overview of the progress made in introducing and developing employment equity programs. The survey also included organizations which were not recipients of grants from the Fund. The survey noted that about 190 of the 245 organizations with employment equity programs started the program after the commencement of the Fund, with the largest number starting in 1987.

However, this survey only provided an indication of the response to the employment equity program. It did not provide sufficient information on which to measure the effectiveness of the program in meeting the program objective of improving the status of women employed in the broader public sector. In the absence of this information and the establishment of minimum achievement standards by the Directorate, there was no basis for monitoring the impact of continued funding on achieving program objectives.

Staff at the Directorate also prepared a "Report on the Activity Review of the Employment Equity Incentive Fund" in March 1990. The purpose of this review was "to determine whether the program is achieving its objectives and what improvements could be made in the delivery of the program". Although this review concluded that, for the most part, the program was achieving its objectives, the methodology was not based on collaborating evidence from quantitative analysis of employment data trends over the funding period, but relied primarily on information from the 1988 survey and from interviews with Fund administration staff at participating ministries.

Subsequently, the Directorate started to prepare a report on the status of women in the broader public sector. Although this project was in abeyance, officials indicated that a summary report will be prepared on the Fund at the end of the funding period in March 1992.

We acknowledged that the Fund was a multi-year program and that the ultimate outcome of the program could not be evaluated until the end of the funding period. However, intermediate results during the period should have been assessed for effectiveness by the participating ministries as originally agreed to in the memoranda of understanding between the ministries and the Directorate. This would have helped program administrators assess whether any changes were needed in the delivery of the program, and ensured that funds were used in the best possible manner.

COMMUNITY GRANTS

The Community Grants program is intended to address issues in the categories of employment equity, violence against women, sex role stereotyping, and poverty. It is aimed at women in various target groups such as immigrant/visible minority, francophone, low income and native women. Projects funded by this program must be completed within one year. Approved projects have been funded up to a maximum



Comments on Ministry and Crown Agency Audits

3.11 cont'd

of \$24,000 each. According to Directorate records, a total of 507 grants, amounting to \$4.1 million, were awarded during the six years ended March 31, 1990.

We examined a sample of approved and rejected project files.

We were satisfied that grants were awarded to projects which met eligibility criteria and were spent by the recipients for the purposes intended. Procedures were in place to ensure proper selection, approval of applications and the reporting by grant recipients.

Monitoring of Program Effectiveness

Grant applicants are required to list project effectiveness measures in their application forms and submit a Project Evaluation form when the project is completed. This latter form provides a self-assessment of the extent to which project objectives have been achieved. Given the funding limitations of Community Grants and the limited resources at the Directorate, the Program Evaluation form represents a reasonable mechanism to evaluate project effectiveness and to provide evidence of project completion.

However, we noted that:

- some of the applicants had not identified effectiveness measures in their applications; and
- some grant recipients had not submitted the required Project Evaluation forms.

Without ongoing monitoring of individual funded projects, the Directorate was not in a position to assess the effectiveness of the program as a whole or to determine whether any changes to the program were necessary.

RESPONSE

The Acting Assistant Deputy Minister of the Ontario Women's Directorate responded to our audit report.

ONTARIO JOINT FAMILY VIOLENCE INITIATIVES

Effectiveness Measurement

"Program evaluation has been made a priority for the coming fiscal year for the Ministry of Community and Social Services which receives its funding directly, and for the other initiatives funded through the Directorate."



Tourism and Recreation Recreation, Sports and Fitness

3.11 cont'd

EMPLOYMENT EQUITY INCENTIVE FUND

Measuring the Effectiveness of the Program

"Although a survey was conducted by the Directorate and reports issued by Ministries, we agree that additional monitoring features would have been useful. In particular, comprehensive data collection initiatives on the part of all participating ministries would have provided a basis on which to evaluate the status of women. We will be preparing a wrap-up report on the fund at the end of the fiscal year based on available data."

COMMUNITY GRANTS

Monitoring of Program Effectiveness

"The Community Grants program is designed to provide small grants, on average \$5,000, to groups who because of their size and lack of sophistication find it difficult to deal with government requirements. We are consulting with community groups on the issue of program monitoring and evaluation, and will be reviewing our monitoring and evaluation requirements to determine what can reasonably be expected from these groups. However it should be noted that with present staff resources comprehensive on-site monitoring will not be possible."

3.12

Sports and Fitness and Recreation Grants, Ministry of Tourism and Recreation

The Tourism and Recreation Operations Program and the Recreation, Sports and Fitness Program provide funding for community recreation, sports and fitness, and capital assistance to municipalities and community organizations. Grants are also awarded to provincial recreation and sport organizations.

In the 1990 fiscal year, program expenditures totalled approximately \$93.5 million, of which approximately \$59 million were transfer payments to promote recreation and sports and fitness.

SUMMARY

SCOPE AND OBJECTIVES

We audited 14 sports and fitness grants to provincial sports organizations totalling \$1.3 million, and 48 recreation grants to municipalities and non-profit organizations totalling \$8.3 million. Our audit included visits to four district offices and 25 grant recipients.

We assessed whether Ministry grants:

- were provided for eligible purposes and in accordance with applicable policies and procedures; and
- were used for the purposes intended and in accordance with applicable terms.



Comments on Ministry and Crown Agency Audits

3.12 cont'd

CONCLUSIONS AND FINDINGS

AWARDING OF GRANTS

Grants were generally provided for eligible purposes and in accordance with applicable policies and procedures. However, a recreation grant of \$664,000 was awarded for a \$3.1 million project which lacked sufficient outside funding.

COMPLIANCE WITH GRANT TERMS

While recreation grants were generally used as intended, and in accordance with applicable terms, there was inadequate information available to determine whether sports and fitness grants were similarly used. For example:

- Some organizations lacked documentation to support the accuracy of their reported expenditures.
- The Ministry was regularly funding a higher percentage of the total costs of provincial sports organizations than originally approved.

OTHER MATTERS

Awarding of small grants to municipalities and recreation base grants for less than \$500 should be reviewed.

COMMENTARY

AWARDING OF GRANTS

In the 1990 fiscal year, the Ministry awarded recreation grants totalling \$44 million to qualifying municipalities, non-profit organizations, Indian band councils and local service boards. Some of the more common grants were for new recreation facilities, renovations to recreation facilities, and to assist organizations with improved planning and marketing, and increasing participation and research.

The Ministry also provides financial and consultative support to provincial sports organizations. Financial assistance is also provided annually to the Ontario Sports Centre which provides accommodation and related administrative support services to certain sports governing bodies and other related associations.

During the 1990 fiscal year, grants totalling \$11.7 million were awarded to provincial sports organizations and \$3.3 million to the Ontario Sports Centre through the Recreation, Sports and Fitness Program.

Recipients must submit a final report by April 30 stating both the actual costs that were eligible for each sub-grant and the amount spent during the previous year. The report must also indicate how the funds were spent, and whether the goals were met. Any funds not used for the purposes intended are required to be returned to the Ministry.



Tourism and Recreation

Recreation, Sports and Fitness

3.12 cont'd

Before awarding grants, Ministry staff ensured applications met Ministry guidelines. **We found that grants were given only for projects that had been properly assessed based on the Ministry's selection criteria.**

Projects Financially Viable

A critical part of the review and approval of capital grant applications is ensuring that the project has the necessary financial backing to be completed. Once an organization has spent the grant funds received, the Ministry could find it difficult to recover its funds if a project was not completed.

Recognizing this, Ministry guidelines state that applicants who plan to finance the remaining portion of capital cost by any means of indebtedness "must demonstrate the ability to carry the ongoing costs of repayment of principal and interest by providing a planned budget for the retirement of such indebtedness."

We found that, before awarding a grant, the Ministry generally did ensure that projects were financially viable. However, there was one exception in the projects we reviewed. **In January 1989, a recreation grant of \$664,000 was awarded to assist in the construction of an arena. The total estimated cost for the arena was approximately \$3.1 million with an estimated completion date of September 1989. In reviewing this grant, we noted that:**

- The donations forecast in the grant application appeared to be overly optimistic. Although this non-profit organization had raised approximately \$200,000 in each of the previous three years, there was no evidence it would achieve its goal of raising the approximately \$2.4 million needed to pay the debt incurred during construction, plus any accrued interest charges.
- One factor that influenced the Ministry to approve the grant was a letter of intent from a bank indicating it would lend \$1.7 million to the organization. We were advised by Ministry staff that they interpreted this to be a firm commitment. That was not the case, and the bank subsequently only advanced \$1 million.

Accordingly, **construction had basically stopped until additional financing could be obtained.** The estimated total project cost has increased to \$4.2 million, partly because of the roof collapsing in August 1989. Further, the fund-raising campaign was well behind schedule.

The recipient still intends to complete this project. However, we understand that this will only be accomplished if an additional \$650,000 is obtained. As of August 12, 1991, this funding was still not in place.

COMPLIANCE WITH GRANT TERMS

Monitoring to Ensure Grants Used for Eligible Purposes

The Ministry requires provincial sports organizations to keep and maintain all records, invoices and other documents relating to a grant for a period of three years.



Comments on Ministry and Crown Agency Audits

3.12 cont'd

While the Ministry's sports consultants reviewed final reports to ensure that funds had been used for eligible purposes, there was no process in place for reviewing the records of the organizations. The consultants generally accepted that amounts reported were substantiated and accurate.

We reviewed the accounting records of five sports organizations and found **it was not possible to determine whether grant funds were used for eligible purposes**. Generally, the accounting records lacked sufficient details to relate expenditures to specific sub-grants. Compounding this problem was the fact that four of these organizations could not verify for us how they spent their grant funds. For example, one organization, which received grants totalling \$66,000 for athlete development, could not provide any invoices or other documentation to indicate that the funds were used for the purposes stated in the final report. We were advised that the records had been misplaced.

Poor accounting records at provincial sports organizations was also identified as a concern in our 1986 audit of the Ministry and in a 1988 audit performed by the Ministry's Internal Audit Branch.

Higher Percentage Funded By Ministry

Along with their annual budgets, provincial sports organizations submit a detailed listing of planned activities. The grant amounts awarded by the Ministry are usually significantly lower than requested. This could encourage organizations to submit inflated budgets.

While the organizations seldom completed all the activities budgeted, they were not required to repay any funds to the Ministry unless the amount spent was less than the grant provided for a particular category of expense. There was also no requirement that the percentage of Ministry funding be maintained at the same level as was approved. Ministry staff indicated that they were also concerned that **the percentage of costs funded by the Ministry was usually higher than originally approved**. For example, for the 1990 fiscal year:

- One sports organization submitted a budget of \$261,000 to fund eligible activities. This organization requested a grant of \$149,000 from the Ministry. However, the Ministry, after reviewing the application and having discussions with the organization, approved a grant of \$74,000, or approximately 30 per cent of estimated expenditures.

The organization ultimately only spent \$149,000 on eligible activities. This was primarily because the organization did not complete all the activities budgeted. However, no funds were required to be returned to the Province. Therefore, the Ministry actually funded about 50 per cent of this organization's eligible costs.

- For fiscal 1990, another sports organization submitted a budget of \$721,000 to fund eligible activities, and requested a grant of \$371,000. However, while the Ministry awarded \$246,000, or about 35 per cent of estimated expenditures. The organization spent only \$249,000 on eligible activities. For example, while



Tourism and Recreation Recreation, Sports and Fitness

3.12 cont'd

the organization budgeted \$213,000 for championship travel, it spent only \$38,000 because some expenses were covered by its national organization.

Although the organization repaid \$73,000, in the end the Ministry funded approximately 70 percent of this organization's eligible expenses.

In addition, it was not possible to determine whether funding provided had achieved the desired results. At the time of our audit, there was no requirement for organizations to submit a revised annual plan after the amount of the approved grant was known. Therefore, there were no specific details as to what would be accomplished with the funding provided by the Ministry.

OTHER MATTERS

Insignificant Recreation Program Grants

Regulations under the *Ministry of Tourism and Recreation Act* stipulate that grants be awarded to municipalities, Indian bands, and local service boards to assist in financing recreation programs. During fiscal 1990, there were approximately 900 grants awarded totalling \$5.1 million.

The amount of each grant is based on a percentage of approved recreation costs, up to a maximum based on population size and available funding. These amounts have not been revised since at least 1984.

Particularly where the population exceeds 25,000, the amount of each grant is insignificant when compared to the total recreation expenditures of most recipients. For example, in 1990 three cities with populations over 250,000 each received a grant of only \$5,820.

In fiscal 1990 the average grant was approximately \$5,700. Since many of these grants were insignificant, **we recommended that the Ministry review whether these regulations should be revised.**

Insignificant Recreation Base Grants

During fiscal 1990, recreation base grants totalling \$375,000 were awarded to 88 small community organizations. We noted that 29 of the grants were for less than \$500. One grant was for only \$28.

Considering the cost to the Ministry to process individual grants, **we recommended that the Ministry consider establishing minimum amounts for grants.** The Ministry's internal audit branch has also reported that the Ministry awards a large number of small grants which are costly to administer.



Comments on Ministry and Crown Agency Audits

3.12 cont'd RESPONSE

The Deputy Minister of Tourism and Recreation responded to our audit report.

AWARDING OF GRANTS

Projects Financially Viable

"We disagree with the conclusion drawn about the [grant of \$664,000 awarded to assist in the construction of an arena].

"Ministry staff conducted a thorough review of the application. The audit report portrays the project as an exception to Ministry practice of supporting financially viable projects.

"Our disagreement is based on the following:

- *A feasibility study was completed indicating need for the facility, and contained support from surrounding municipalities.*
- *The client had completed a fund-raising strategy. This combined with their track record of fund-raising and their integrity, in our assessment, indicated their ability to raise the required funds.*
- *The report questioned our acceptance of a 'letter of intent' from a bank to finance the project. The letter of intent, worth \$1.7 million, was based on a collateral mortgage on the existing property assessed at \$2.5 million. This, combined with the fund-raising strategy, satisfied our needs.*
- *Subsequent to grant approval, two significant events seriously affected the group's ability to proceed:*
 - *First, during construction, roof trusses collapsed. The contractor was found at fault, however a lengthy delay took place and the matter is yet to be settled, resulting in a \$500,000 shortfall. This is a significant amount of money for a non-profit group to absorb.*
 - *Second, as a result of the noted delay, the current recession continues to [have an] impact on the group's ability to raise funds.*

"The Ministry is convinced that the facility would have opened on schedule had these two events not taken place.

"The report also stated that construction had basically stopped. In fact, the group should be complimented for their ingenuity and commitment, because the facility is 80 per cent complete, and 95 per cent of prime time has been booked. At no time was construction stopped.

"Staff have monitored this project closely with regular site visits, and this practice will continue until completion. We are satisfied that, although delayed, the project will be completed shortly."



Tourism and Recreation

Recreation, Sports and Fitness

3.12 cont'd

COMPLIANCE WITH GRANT TERMS

Monitoring to Ensure Grants Used for Eligible Purposes

"Ministry consultants are primarily experts in organizational development. They have a general knowledge (specific training on a Ministry-wide basis is compulsory through our Financial Skills Program) of financial management, but do not have the skills to audit the books of organizations. This is therefore not a role that could be appropriately undertaken by Ministry consultants."

"The Provincial Auditor's 1986 report states: 'Now that the Ministry has established an internal audit function, this group could provide the necessary (audit) assurance, both by special request and through an ongoing selection of sports governing bodies.' These types of audits have been conducted on a special request basis, and the Ministry plans to initiate a regular program of PSO audits as part of the Ministry's internal audit plan."

"Provincial sports organizations (PSOs) are required to retain financial records to verify expenditures for three years. The terms and conditions of PSO grants clearly require that this role must be carried out by these organizations. The Ministry has developed and provided to the PSOs financial practices guidelines to assist in delineating the requirements. The new program of PSO audits by the Ministry will be designed to improve compliance with these requirements."

Higher Percentage Funded by Ministry

"Consultants compare the year-to-year requests from provincial organizations to keep applications realistic. Also, a mid-year review process has been put into place to ensure adjustments are made to the plans based on actual approved amounts."

"The review of the entire grant processing detailed above will assist in providing the required system, and will assist in ensuring the percentages are maintained at an appropriate level."

"In future, organizations will be asked to submit a revised plan after the approved grant amount is known."

OTHER MATTERS

Insignificant Recreation Program Grants

"We agree with the recommendation to review... grants [under this regulation]."

Insignificant Recreation Base Grants

"We agree with your recommendation and will review these grants."



Comments on Ministry and Crown Agency Audits

3.13 Municipal Transit Program, Ministry of Transportation

The objective of the Municipal Transit Program is to provide financial and other assistance for transit systems in urbanized municipalities. Program expenditures were \$404 million for the 1991 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

We assessed whether:

- controls over payments were satisfactory and whether municipalities were complying with the terms and conditions of the subsidies; and
- the subsidies were spent economically by the recipients.

We examined the controls and procedures at the Ministry's Transit Office and the Toronto Transit Commission, Ottawa-Carleton Regional Transit Commission and the Hamilton Street Railway. These three municipal transit organizations accounted for approximately 70 per cent of the municipal transit subsidies provided in the 1991 fiscal year.

CONCLUSIONS AND FINDINGS

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

Controls over payments were generally satisfactory and municipalities generally complied with the terms and conditions of the subsidies. However:

- inadequate monitoring by the Ministry resulted in capital subsidies being paid in excess of approved allocations. In one instance the excess was \$6.1 million; and
- Ministry guidelines did not adequately differentiate between reconstruction and repair. The former is subsidized at a much higher rate.

REGARD FOR ECONOMY

We concluded that, overall, subsidies were being spent economically by municipalities. However:

- one organization did not use competitive procedures for any of its purchases relating to transportation of the physically disabled. During 1989 and 1990, these purchases totalled approximately \$3.6 million.



Transportation Municipal Transit

3.13 cont'd BACKGROUND

There are three main types of subsidies available to municipalities:

Operating Subsidy

- equals 16 to 25 per cent of the annual operating costs based on municipal population. These subsidies totalled approximately \$193 million in the 1991 fiscal year.

Capital Subsidy

- reimburses 75 per cent of eligible capital expenditures including rapid transit construction, rolling stock acquisition (i.e. vehicles) and garage/terminal construction. Payments totalled approximately \$171 million in the 1991 fiscal year.

"Transportation For The Physically Disabled" Subsidy

- capital costs are generally subsidized at a rate of 50 per cent, with a guaranteed minimum operating subsidy of 50 per cent of actual net operating cost. For the 1991 fiscal year, these subsidies totalled approximately \$32 million.

COMMENTARY

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

While the Ministry's financial controls over subsidy payments were generally satisfactory, we noted some weaknesses regarding capital subsidies. Municipalities satisfactorily complied with the Ministry's subsidy requirements.

Capital subsidies are based on a five-year expenditure estimate provided by each organization.

Transit organizations annually submit a request for subsidy allocation detailing the projects to be undertaken and the funding required for each. After a review of this submission, the Ministry issues a written approval and funding limit for each project. Substitution of projects or expenditures over the limits are not subsidized unless written approval has been received from the Ministry "regardless of whether such items can be accommodated within the original allocation."

Improvements Needed in Monitoring Subsidies

In 1989, one organization received a subsidy of \$25.7 million for conventional surface capital (e.g. buses and streetcars) instead of the \$19.6 million that was allocated by the Ministry. There was no written approval from the Ministry for the additional \$6.1 million.

The Ministry frequently paid a subsidy for specific projects in excess of what had been allocated for those projects. In four of the seven organizations we reviewed at the Transit Office, we identified excess payments for 1989 totalling



Comments on Ministry and Crown Agency Audits

3.13 cont'd

approximately \$200,000 which had not been approved. The total claimed for these projects was approximately \$2.5 million.

Exceptions to Ministry Policies and Procedures

The Ministry does not follow the same procedures in awarding and monitoring the capital subsidies of all transit organizations. We found that, in order to provide one particular organization more flexibility to manage its own program, the Ministry allowed certain exceptions:

- Thirteen of the 16 projects we reviewed, valued at \$33 million, did not receive written approval.
- No approval was received from the Ministry to exceed the amount requested for individual projects. In 1989 and 1990, the transit organization claimed and received capital subsidies totalling approximately \$22 million for projects which were only allocated \$11 million.
- Ministry restrictions prohibiting the substitution of projects approved for funding were not enforced.

We noted that capital subsidies were claimed for projects where no subsidy had been requested or approved. In 1989, \$12.8 million was obtained for 15 different conventional surface projects that were not included in the subsidy allocation requested. Similarly, since 1988, this organization has received approximately \$4.4 million for seven rapid transit projects that were not included in any subsidy allocation.

Lack of Sufficient Policies and Procedures

At the time of our audit, there were inadequate Ministry guidelines to **differentiate between reconstruction and repair**. Since repairs are treated as operating expenses and reconstruction is a capital expense, this could result in an incorrect subsidy being paid.

We noted that one transit organization received capital subsidies for projects such as subway track replacements which, based on other similar items, would normally be considered a repair. Accordingly, it would only qualify for an operating subsidy. Track replacement on streetcar routes is only eligible for capital subsidies if it is done in conjunction with roadway reconstruction/repair.

In 1989 and 1990, this organization received \$3.3 million more for subway track replacement than it would have if these projects had been subsidized as operating expenses.



Transportation

Municipal Transit

3.13 cont'd

Contracts with Operators

For the contracts with operators at the transit organizations we visited, we noted that at one organization:

- The contract between the transit organization and its supplier of disabled transit services expired in December 1986. During 1990, this supplier received grants and subsidies totalling approximately \$4.3 million.
- The supplier of disabled transit services entered into a five year agreement ending in 1992 with a company which provides approximately 60 per cent of the transportation required for the physically disabled. This agreement included predetermined rate increases per passenger trip for each year.

However, we noted that effective September 1990 the contracted rates were further increased for the balance of the contract. There is no provision for such additional increases in the agreement. Therefore, the company was paid approximately \$89,000 more than the contracted rate for the four months in 1990 that the new rate was in effect.

REGARD FOR ECONOMY

Capital Subsidies

The Ministry's Transit manual states that "in acquiring any capital asset to be eligible for subsidy, a municipality must follow the standard purchasing practice of preparing specifications and calling tenders." We sampled 40 capital projects totalling approximately \$100 million from the three largest transit organizations and found that competitive bids were generally obtained.

Transportation Subsidies for the Physically Disabled

The Transit Manual requires that municipal transit services and equipment be acquired competitively. At two of the three transit organizations we visited, competitive bids were generally obtained.

At the one organization that did not use competitive procedures, purchases during 1989 and 1990 totalled approximately \$3.6 million. This included vehicles, taxi services, vehicle maintenance, printing services and a telephone system. We noted that the other two organizations we visited did obtain competitive bids for similar services and items.

This organization did not have a formal purchasing policy. At a minimum, it should be required to follow the municipality's purchasing policy.

Concerns have also been raised with the Ministry by outside parties regarding the methods used by this organization in selecting these suppliers. We share these concerns. Without a competitive acquisition process, there is no assurance that the costs are reasonable.



Comments on Ministry and Crown Agency Audits

3.13 cont'd RESPONSE

The Deputy Minister of Transportation responded to our audit report.

CONTROLS OVER PAYMENTS AND COMPLIANCE WITH SUBSIDY REQUIREMENTS

Improvements Needed in Monitoring Subsidies

"The Ministry issues project-specific allocations for approved capital undertakings. Frequently, a municipality wishes to make in-year adjustments to these individual allocations—typically to balance increased allocation requirements for advanced projects against lower allocation requirements for those that have not progressed as rapidly as originally forecast. This balancing of project-specific allocations occurs throughout the year, and is more intense during the latter half.

"Other situations requiring in-year allocation adjustments are:

- *early delivery of buses originally scheduled for the following year; and*
- *failure of transit organizations to request allocations for projects approved in a prior year, but which had subsequently been deferred to a following year.*

"By and large, these in-year allocation adjustments were assessed, approved and monitored by the Ministry. However, in certain cases these adjustments were not formally incorporated in a revised allocation letter due to year-end time constraints.

"In recognition of this deficiency, the Ministry implemented the following procedural improvements in 1990:

- *issuance of a pamphlet to transit organizations detailing their obligations in the overall subsidy administration process; and*
- *annual distribution of a report in the latter part of the year detailing the subsidy payment status of all capital projects and requesting each transit organization to advise of their year-end projected requirements.*

"The Ministry will modify and continue to implement the current procedure to provide a clear audit trail of in-year allocation adjustments."

Exceptions to Ministry Policies and Procedures

"Audit findings reflect the result of the Ministry decision to gradually phase in the application of the full approval-in-principle process to the noted transit organization. This was necessary because of the number and complexity of capital projects undertaken by this organization.

"For fiscal 1991/92, the approval-in-principle process has been fully implemented in as much as:

- *this organization submitted at the beginning of the year project sheets for all proposed undertakings;*



Transportation Municipal Transit

3.13 cont'd

- based on Ministry review, a list of approved projects was produced; and
- the organization was advised of those projects not yet approved, and for which additional information and/or a full justification report was required if it wished to pursue approval of these projects.

"The Ministry also implemented in 1990 and 1991 the following procedures to further improve the monitoring and control of capital projects undertaken by the noted transit organization:

- *Ministry participation in the planning, design and construction phases of selected capital projects;*
- *Ministry review of Capital Project Management System reports submitted regularly by the transit organization; and*
- *periodic meetings with the transit organization to review progress of approved projects and initiation of new projects.*

"The Ministry will continue to increase its monitoring and control efforts regarding this transit organization, and will endeavour to document all in-year revisions."

Lack of Sufficient Policies and Procedures

"Audit findings deal exclusively with the subsidy treatment of rapid transit claims. This area of public transportation is very specialized in nature and limited to but a few transit organizations in the province.

"Prior to producing more detailed rapid transit subsidy guidelines, in a fashion similar to those in place for surface capital items, the Ministry requires a more detailed understanding of rapid transit construction/rehabilitation requirements. Since the last provincial audit, the Ministry has allocated the maximum allowable resources, including some from its regional offices, to increase its scrutiny/management of rapid transit projects. Through such actions, the Ministry's knowledge base and expertise vis-à-vis rapid transit is increasing and, over time, the Ministry will be in a better position to produce proper guidelines.

"The specific example cited involves track replacement. This organization has similar criteria (i.e., track wear) for both surface and subway track to determine what sections of track should be reconstructed. Surface (i.e., streetcar) track replacement projects are generally carried out in conjunction with roadway reconstruction to ensure efficient use of resources. Under both surface and subway programs, projects involving the replacement of less than one hundred linear feet of track, or costing less than \$50,000, are considered to be repair undertakings and subsidized as operating expenses."



Comments on Ministry and Crown Agency Audits

3.13 cont'd

Contracts with Operators

"The audit comments have been noted, and the Ministry, together with municipal staff, are actively pursuing the development and execution of an appropriate service agreement. Further, the Ministry will allocate sufficient resources to develop and maintain a formal procedure to track the status of all transit organizations' contracts for the delivery of service."

REGARD FOR ECONOMY

Capital Subsidies

"The Ministry will continue its efforts to maintain this achievement."

Transportation Subsidies for the Physically Disabled

"Concerns raised here deal with the practices of the supplier noted in the section subtitled 'Contracts with Operators'. As part of Ministry deliberations with municipal staff regarding a service agreement, concerns regarding lack of tendering and other anomalies will be addressed."

3.14

Monitoring of Employee Expenses, Liquor Control Board of Ontario

The Liquor Control Board of Ontario regulates the sale of liquor throughout the province and operates over 600 stores for the sale of liquor to the public. In the year ended March 31, 1991, sales were approximately \$2 billion and the Board remitted \$650 million in profits to the Consolidated Revenue Fund.

SUMMARY

During our current year's audit we found that:

- there were numerous payments of ineligible and questionable expenses;
- although an internal audit investigation revealed over \$4,000 was paid to an employee for ineligible expenses, reimbursement of only \$50 was requested; and
- more improvement was needed in the management of vehicles. Some practices were contrary to Government policy.



Liquor Control Board of Ontario

3.14 cont'd COMMENTARY

The Board has developed policies to control employee travel, hospitality and moving expenses. Additionally, the Board is expected to adhere to established government-wide policies except where such policies would not be practical given the commercial nature of the Board.

In the 1991 fiscal year, the Board spent approximately \$2 million on employee travel, hospitality and moving expenses. We reviewed these expenses and noted several deficiencies.

Ineligible Expenses Reimbursed

Employees are reimbursed for travel, meals and hospitality expenses while on Board business. Employees are responsible for claiming only those expenses which are in accordance with Board policy. It is the responsibility of an employee's supervisor to authorize each claim to ensure that all reimbursed expenses are for legitimate Board business.

We examined expense claims of approximately 20 employees. Below are some examples of ineligible and questionable claims.

- Six managers regularly took their staff to lunch at the Board's expense.
- Expense receipts and explanations were often not provided.
- The Board paid the cost of long service and retirement dinners (\$400) and other social events such as a golf day (\$80) and a curling bonspiel (\$50), including the cost of travel to these events. Government policy states that public funds must not be spent for social events.
- An employee was reimbursed \$260 for 900 kilometers of travel while on vacation.

Expense Claim Investigation

In November 1989, the Chairman of the Board requested that the Board's internal auditors investigate allegations that a department head had claimed ineligible expenses. The investigation revealed that the employee had not complied with a number of Board policies. For example, the employee:

- had not reimbursed the Board for the personal use of a Board automobile including extensive home-to-office travel; and
- had claimed reimbursement for personal meals, bar bills and accommodation.

The ineligible expenses exceeded \$4,000. The Board's senior management stated that the employee's actions were inappropriate but requested only a partial reimbursement (\$50) for expenses improperly claimed.



Comments on Ministry and Crown Agency Audits

3.14 cont'd

The results of this investigation were reported to the Chairman. However, the Audit Committee was not informed, although the Board's Administration Manual requires the General Audit Department to discuss all completed audits with the Committee. The Manual also requires audit findings that are not resolved satisfactorily to be referred to the Committee for resolution.

Questionable Vehicle Policies

The Board has approximately 50 automobiles, most of which are assigned to employees responsible for the inspection and supervision of the Board's province-wide operations.

In 1989, the Board's internal auditors reviewed vehicle management practices and found that adequate controls were not in place to ensure that vehicles were utilized effectively and in the most economical manner. The auditors made several recommendations for improvement, most of which were adopted. However, our current review revealed that the Board had not implemented two of the recommendations:

- that all drivers maintain a vehicle travel log to enable the Board to maintain control over the use of Board vehicles and ensure that personal use was properly accounted for. We found no evidence that any of the Board's employees maintained a log book. Government policy requires that a proper record of all vehicles be maintained; and
- that personal use of LCBO vehicles be prohibited on non-business days. However, the Board continued to permit such use on condition that employees reimbursed the Board.

The amount reimbursed by employees (approximately \$20,000) for personal mileage was unusually low. For example, the employee investigated by internal audit had travelled 27,000 kilometers in the 1990 calendar year but had not reimbursed the Board for any personal mileage. This employee regularly travelled between his home and the office in a Board car. We could not conclude whether this was a common problem because, as noted earlier, employees did not maintain travel logs.

RESPONSE

The Chair and Chief Executive Officer of the Liquor Control Board of Ontario responded to our audit report.

Ineligible Expenses Reimbursed

The response included these comments on expense claim examples:

- *"We are reviewing our policies on working lunches and propose to introduce procedures to ensure that only infrequent business related working lunches will be paid for from Board funds."*



Liquor Control Board of Ontario

3.14 cont'd

"Where in the opinion of the Board there is productive use of time through the vehicle of working lunches, the LCBO will support this practice through policy."

- *"Our Administration Manual already states that all receipts are to be provided, where required. However, instructions will be issued to persons authorizing expense claims to reinforce this requirement and to stipulate that explanations be provided where necessary."*

"In addition, the expense form will be revised to provide space for business justification and explanations."

- *"For many years it has been the practice to have senior management representation at functions for retiring managers. In areas where it is not practical to have Head Office representatives attend, the District Manager is expected to attend the function on behalf of Head Office."*

"Consequently, his cost for attending such functions has been allowed and has been established at a maximum of \$25 per attendance. Since District Managers are expected to attend such functions for the sake of maintaining good employee relations, it is felt that the expense should not be borne by them personally. The cost of the function itself is not normally paid for from Board funds."

"Steps will be taken to have this policy formally documented and approved."

"We agree that these amounts [for a golf day and curling bonspiel] should not have been reimbursed to the employees concerned."

"An audit of the travel expense claims is currently being performed by our Internal Audit Department. Following the recommendations of that audit, we will adopt appropriate measures to ensure that explicit business expenses only are claimed."

- *"It would appear that a substantial portion of the transportation costs incurred by this employee in travelling to her place of vacation was subsidized by Board funds. We are obtaining from this employee a refund of the amount claimed and propose to introduce procedures to ensure that travel claims of this nature are neither made nor honoured in future."*

Expense Claim Investigation

"In the absence of clear guidelines as to what constitutes personal trips, senior management decided that recovery of certain expenses claimed by the employee would not be appropriate. Subsequent to our Internal Audit investigation, more explicit guidelines have been formulated and are now included in our Administration Manual."

"This being a special investigation rather than an audit of internal controls, the Auditor did not offer any recommendations. We believe any decision taken was related to the performance management process and therefore a management prerogative and responsibility. That is why this special investigation was not referred to the Audit"



Comments on Ministry and Crown Agency Audits

3.14 cont'd

Committee but was reviewed with the C.E.O. who is also Chairman of the Audit Committee."

Questionable Vehicle Policies

"The 1989 Report of the Board's Internal Auditors was reviewed and discussed extensively by senior management and the Audit Committee of the LCBO. The decision was made to implement the majority of the recommendations from this Report.

"In respect of the two comments in your report, we comment as follows:

- *Log Books: The Board will proceed to insist that all employees maintain travel log books.*
- *Vehicle Use: The Board will also insist that personal use mileage be recorded, reported and reimbursed to the LCBO."*

3.15

Management of Government-Owned Housing, Ontario Housing Corporation

Ontario Housing Corporation (OHC) is the largest landlord in Canada, providing "rent geared to income" housing for over a quarter of a million people. Potential applicants and residents include low-income singles and couples, families, senior citizens, disabled persons with or without support services, battered spouses, and refugees.

SUMMARY

SCOPE AND OBJECTIVES

We assessed whether:

- the management information system was providing timely and relevant information for decision making and performance assessment;
- maintenance projects and services were undertaken in a cost-effective manner and in accordance with established policies;
- rent was properly determined and collected on a timely basis; and
- established policies resulted in equitable and effective placement of tenants.

Our audit included the Corporate head office and five local housing authorities (LHAs) representing about 54 per cent of the total units owned and managed by OHC.



Ontario Housing Corporation

3.15 cont'd

CONCLUSIONS AND FINDINGS

MANAGEMENT INFORMATION AND REPORTING

Despite significant expenditures and effort, the Corporation's management information and reporting systems remained less than satisfactory.

MAINTENANCE PROJECTS AND SERVICES

Corporate policies for the acquisition of goods and services for major projects were satisfactorily adhered to. However, cost effectiveness could have been improved. For example, several projects were significantly delayed because:

- contractors were not adequately monitored, evaluated and sanctioned; and
- some projects were not well planned and co-ordinated.

Adherence to corporate policies and procedures was less than satisfactory for recurring maintenance services. These policies and procedures were not adequate to determine whether maintenance services were delivered in a cost-effective manner.

- Efforts to measure and report on the timeliness of maintenance services had not yet been successful.
- Indicators and standards had not been implemented to assess maintenance efficiency among LHAs.
- Purchasing policies and procedures were not met satisfactorily for smaller projects.

RENT REVENUE

We were satisfied that rents geared to income were properly calculated based on information provided by tenants, and that rents were collected on a timely basis. Nevertheless, we found that:

- income verification efforts were weak and inconsistent both among and within LHAs;
- rent increases were unusually low in Metro Toronto. In particular, rent increases for projects managed by a private management company were low relative to similar OHC-managed projects; and
- inconsistent treatment of higher income tenants has produced inequities.



Comments on Ministry and Crown Agency Audits

3.15 cont'd

TENANT PLACEMENT

There was some question whether corporate policies and agreements for placing tenants in housing units resulted in equitable and efficient placement of tenants.

- Policy did not require time spent on the waiting list to be considered as a factor in placement decisions.
- Other housing providers were not placing needy tenants from OHC's waiting list as intended as a condition of government funding.

BACKGROUND

The Corporation's portfolio contains about 84,000 units, which are managed by 56 LHAs reporting to six regional offices of the Ministry of Housing. LHAs are "Schedule III" agencies, established by Order-in-Council, which are responsible for the day-to-day management of OHC's portfolio under specific management agreements which set out the responsibilities and operating authority of the LHAs. Each LHA also reports to a board whose members are appointed by Order-in-Council, and include community and tenant representation.

In 1990, monthly operating costs averaged about \$600 per unit, while tenant rents averaged about \$250 monthly. Total annual expenditures for these units amounted to \$606 million, while annual rental revenue amounted to \$252 million. The net loss on assisted housing is shared equally with Canada Mortgage and Housing Corporation (CMHC).

COMMENTARY

MANAGEMENT INFORMATION AND REPORTING

The OHC must have adequate information and performance standards to monitor the operation of the various LHAs and to demonstrate corporate performance overall. In this regard, the Corporation has undertaken two major initiatives in recent years to improve management information and reporting.

One initiative was the development of an information system called HOMES (Housing Operational Management End-User Service). Another initiative was the establishment of a Management Operation Review Section (MORS). Both of these initiatives have been discontinued.

The HOMES Information System

The HOMES information system was initiated as a result of a decision to merge two planned information systems projects: the Financial Management System (FMS) and the Property Maintenance System (PMS). Both of these projects were approved by Management Board of Cabinet; FMS in April 1986 and PMS in August 1987.



Ontario Housing Corporation

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Our review of HOMES revealed that:

- by March 31, 1989, the Ministry had already spent a total of \$5.85 million on FMS, PMS and HOMES. This amount was \$1 million more than the total \$4.95 million approved for the FMS (\$3.3 million) and PMS (\$1.65 million). However, as of that date the total project was estimated to be less than 50 per cent complete; only the first of three phases of PMS had been implemented. Subsequent phases depended upon successful implementation of the planned FMS; and
- in June 1989, an external management consultant was hired to evaluate the project. In February 1990 the development of HOMES was discontinued based on the recommendation of the consultant.

Ministry officials indicated that frequent changes of Ministers and senior management at the Ministry of Housing, Ministry of Municipal Affairs and OHC, and the resulting changes in system requirements and priorities—in addition to a lack of senior management experience in managing systems development projects—severely affected the project.

Our follow-up review of the management consultant's report, the PMS portion of HOMES, and a recent submission to the Management Board indicated:

- The PMS portion of the project has not yet been used as intended to improve property management or reduce costs. Staff have not updated the system routinely, so most of the management information it has produced has been unreliable.
- In March 1991, the Ministry received Management Board approval for the Corporate Financial Information System to replace the discontinued FMS at a five-year cost of \$5.6 million.

According to the Ministry, several recommendations made by the management consultant for improving the controls over systems development projects have since been implemented.

Management Operation Review Section (MORS)

In conjunction with increased decentralization and devolution of authority to LHAs, OHC established a Management Operation Review Section (MORS) in 1984 to develop a means of assessing the performance of LHAs. The annual costs of MORS from 1985 to 1989 averaged less than \$500,000 per year.

"Standards to Success" were developed for 16 performance areas, including measures of revenue, costs, maintenance standards, and tenant satisfaction. These standards were to be used by the individual LHAs to compare themselves over time and compare with their peer group to identify areas for improvement. Specifically, the objectives of the "Standards to Success" were:

- to provide economic operational efficiency;



Comments on Ministry and Crown Agency Audits

3.15 cont'd

- to effectively conserve property;
- to foster positive tenant relations; and
- to effectively manage human resources.

In response to a question from the Standing Committee on Public Accounts in 1988, the then Deputy Minister put forth "Standards to Success" as a key management improvement tool, together with an accountability/information system that measured and motivated effective management of social housing projects by LHAs. However, our follow-up of this initiative revealed that the only two reports on the "Standards to Success" were prepared for fiscal years 1987 and 1988. A draft report was in progress for 1989 when the Management Operation Review Section was terminated as of March 31, 1990.

Management indicated that although the "Standards to Success" provided useful management information, the necessary data was expensive to obtain for the benefits derived. As a result of resource constraint, the Management Operation Review Section was eliminated. According to Management, operations are monitored less formally through regular meetings of an Operations Review Committee comprised of senior managers from head office and the LHAs. Individual LHAs are also encouraged to develop their own performance indicators and standards and to conduct tenant surveys. However, we noted very limited performance reporting by the LHAs we visited.

MAINTENANCE PROJECTS AND SERVICES

LHAs are responsible for undertaking all renovation and maintenance services for their housing complexes. Expenditures on minor repairs and operating expenses incurred on an annual basis such as security, snow and waste removal, and grounds upkeep are classified as recurring expenditures. Renovation and maintenance projects costing over \$300,000 and incurring on an infrequent or one-time basis are classified as non-recurring expenditures.

In 1990, non-recurring expenditures for OHC amounted to \$87 million. Of this amount, the five LHAs we visited accounted for about \$44 million (50 per cent). Recurring maintenance materials and services purchased amounted to \$71 million. Internal labour costs, excluding transportation, communication and administration, amounted to another \$86 million.

Tendering Requirements for Major Projects Complied With

OHC has policies and procedures in place governing the tendering of major contracts. Our audit at the five LHAs indicated that **these policies and procedures were generally being adhered to.** Specifically:

- Major contracts above \$15,000 were publicly tendered.
- Short form or invitational tenders were normally used for contracts between \$4,000 and \$15,000.



Ontario Housing Corporation

3.15 cont'd

- Contracts were awarded to the lowest qualified bidders.
- All examined contracts over \$300,000 were properly approved by the OHC Board.

Significant Delays in Completion of Major Projects

We found that **major renovation and maintenance contracts were frequently completed late**. In particular, we found that:

- Three of the five LHAs we visited had significant problems in completing their major projects on time. Our test of completion dates indicated that 80 percent of major contracts at one LHA were not completed on time, while 60 percent and 35 percent, respectively, were late for the other two.
- Many of the projects we examined affected the safety and quality of life of tenants. Significant delays in the completion of the contracts observed in our sample included items such as elevators (eight months), safety lock installation (five months), fire alarm system (six months), site improvement (seven months), and external lighting (four months).

Delays were usually due to one, or a combination of, the following factors.

Policy Not Complied With

OHC policy requires that evaluations of contractor performance be done on all major project contracts. Contract progress should be monitored and progress reports prepared. Our review of contract files at the five LHAs indicated that, for the majority of contracts, **progress reports were not prepared** even for projects with significant delays. For completed contracts, **performance evaluations were inconsistently done**, ranging from none to 70 per cent, depending on the LHA.

LHA officials indicated that many contractors considered OHC contracts to be low priority. Thus, whenever demand was high, OHC contracts often got put aside as contractors would complete their private sector jobs first.

Of the many jobs we examined which were not completed on time, not one of the contractors received any penalty. **Contractors who had caused significant delays continued to be awarded contracts.**

In addition to the effects on quality of life for tenants, deadlines are often a key factor to consider when contractors establish their tender price. Thus, failure to enforce reasonable completion dates is also unfair to unsuccessful or potential bidders.



Comments on Ministry and Crown Agency Audits

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Planning and Co-ordination Efforts Required Improvement

Not all delays were caused by contractors. **Some delays could have been avoided or reduced with better planning and co-ordination.** Specifically:

- Some completion dates were not realistically set with the result that contractors did not take them seriously. For example, one LHA requisitioned major repairs to balconies at the beginning of the year but did not issue the purchase order until the fall. As the temperature for external water proofing required warmer weather, the job could not be finished until the following summer.
- Pre-construction meetings were often not called on a timely basis. Some were called three to four weeks after purchase orders had been issued to finalize the contract.
- One LHA had change orders on over 50 per cent of contracts entered into in 1990.

Better planning and specifications should reduce delays caused by frequent change orders, and would also reduce the temptation for contractors to 'low ball' their initial bid with the intention of increasing the contract with change orders once it is awarded.

Assessing Management of Maintenance Services

Timeliness of Maintenance Services Not Monitored

Our visits to the five LHAs indicated that tenant requests for repairs and maintenance services were usually attended to. However, we could not determine the timeliness of repairs. **Some LHAs did not record dates when they received the requests for repairs and most did not record when the repairs were completed.**

In the only LHA where phase one of the Property Maintenance System had been put in place to monitor repairs and maintenance services the reports proved to be unreliable.

Cost Effectiveness Not Demonstrated

With efforts to improve financial and property maintenance systems still under way, the LHAs have no means to consistently assess and report on the relative cost-effectiveness of their maintenance expenditures.

In the absence of any meaningful indicators or reliable industry statistics, we were unable to conclude on the cost-effectiveness of maintenance services. However, there is at least one comparison that suggests the need for improvement. In the largest LHA (Metro Toronto), 5,800 units are managed by private management. Our review of the average maintenance costs for private management projects showed that **labour and related costs were only 50 per cent and services and material costs were about 80 per cent of those under direct management.** Moreover, according to the last survey done by the



Ontario Housing Corporation

3.15 cont'd

MORS in 1988, tenants were more satisfied with maintenance services provided by private management and we found no appreciable difference in maintenance standards.

Better Purchasing and Payment Practices Required for Recurring Expenditures

While OHC has established prudent purchasing and payment procedures, our audit revealed that **LHAs have not sufficiently adhered to these policies and procedures** for recurring expenditures. For example:

- **Splitting of orders was observed in two of the LHAs visited**, whereby large purchases were divided into several smaller orders in order to avoid the tendering or approval process.
- At all LHAs, **verbal quotes for purchases between \$750 and \$4,000 were either not obtained or not properly documented** as required by corporate policy.
- All LHAs maintain a list of suppliers and contractors whom they contact when competitive procedures would not be appropriate, such as jobs smaller than \$700 and emergencies. LHAs are supposed to rotate work among these contractors. **This rotation is frequently not done.** The same contractors and suppliers are continually receiving business from the LHAs visited.

RENT REVENUE

OHC units are known as "rent-geared-to-income" units. All forms of income, whether it be from employment or social assistance, are to be taken into consideration when calculating monthly rent.

A sliding scale is used for tenants with adjusted gross income of less than \$400. Other tenants pay approximately 25 per cent of their income as basic rent plus an additional charge for utilities.

As income is the key criteria for establishing the amount of rent, tenants are required to sign approvals authorizing OHC to verify income with their employers, Revenue Canada, and other social assistance agencies. Each LHA is to perform an annual review of each tenant's family composition, income of all family members, and amount of rent paid. Rent charged should be adjusted depending upon the tenant's individual situation. In cases where a tenant's income declines during the year, OHC policy allows rent to be reduced for a period.

Inadequate Income Verification

While rents were properly calculated based on tenants' reported income, **we found income verification to be inadequate and inconsistent.** Income verification effort varied from LHA to LHA and even from individual area to area within each LHA.



Comments on Ministry and Crown Agency Audits

3.15 cont'd

Except for self-employed tenants, staff do not obtain tax return information from Revenue Canada to verify reported income. OHC staff were frustrated that there was no way that they could determine whether tenants have reported all sources of income, such as income from more than one employer.

For family units, we also noted a lack of timely follow-up when tenants failed to provide an annual declaration of income for rent determination and inadequate checking when unreasonably low income was reported.

Low Rent at Private Management Projects

It is difficult to assess the impact of inconsistent income verification effort among LHAs. However, of the five LHAs we visited, we noted that **Metro Toronto rental revenues for family units increased only 3.1 per cent in 1990.** Excluding Metro Toronto, overall rent increases in 1990 for OHC family units averaged 5.2 per cent.

Although Metro Toronto tenants are among the most needy in the province, such a low increase is unusual when over 70 per cent of tenants receive social assistance which has increased by at least the rate of inflation each year.

One factor which contributed to the comparatively low rent increases in Metro Toronto was that the 5,700 units managed by a private management company had an average increase of only 2.1 per cent in 1990. Six private management complexes totalling 2,800 units and \$8.4 million in combined annual rent revenues showed no increase in rent revenue over 1989 and one of these actually experienced a decline of over 4 per cent.

Additional testing of low rent tenants at private management projects revealed that higher rent might have been charged for 50 per cent of those tested if proper income verification or reasonableness checks had been done.

Inconsistent Treatment of Higher Income Tenants

In cases where 25 per cent of the tenant's reported income was higher than market rent, we noted that some LHAs followed the strict "rent geared to income" policy while others let the tenants stay and charged them the lower market rent. Still other LHAs charged lower rents but gave the tenants up to two years to move out of their units to make room for more needy applicants. **This inconsistent treatment produced inequities and may deprive more needy tenants of affordable housing.**

TENANT PLACEMENT

The department of Tenant Placement within each LHA is responsible for matching eligible applicants with available OHC units.

Applicants for OHC housing are placed on a waiting list using a point rating system. Those with higher point totals are offered units first. Points are assigned to applicants



Ontario Housing Corporation

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based on adjusted gross monthly income in relation to the number of family members, percentage of income spent on rent, present living conditions, and other priorities such as battered spouses.

At December 31, 1990 there were about 43,000 applicants on OHC waiting lists. The largest demand was from families (49 per cent), followed by seniors (29 per cent), and singles and couples (22 per cent). According to the Ministry's recent consultation paper, "fully 95 per cent of seniors are likely to be housed through OHC priority lists, compared to 32 per cent of singles and couples and 16 per cent of families."

Using Waiting Time to Distinguish Marginally Different Need

While the point system is a reasonably objective means of establishing an applicant's need for housing, it cannot effectively distinguish between degrees of need among applicants. It is hard to determine whether an applicant with 160 points is actually needier than an applicant with 150 points. While applicants with over 100 points are regarded as in "deep need" of affordable housing, LHAs we visited were only able to place applicants with over 155 points due to supply.

We noted that **the amount of time an applicant spends on the waiting list is not also considered, as a matter of policy.** As a result, an applicant with marginally higher point totals could get placed immediately while others of similar need might have to wait an unreasonably long time for housing.

Because there was no reliable analysis of the time applicants spend on the waiting list, it is difficult to assess the significance of this limitation. However, a system which considers both relative need and waiting times may provide greater equity in placement decisions.

Referrals to Other Funded Housing Providers

Non-profit municipal, private and co-operative housing corporations also provide social housing in Ontario. Funding for non-profits and co-operatives is either shared on a 50/50 or a 60/40 basis between the federal and provincial governments or provided 100 per cent by the Province.

Municipal and private non-profits established after 1986 must have at least 40 per cent "deep need" units in their projects. As a condition of funding, one-half of these "deep need" tenants must be selected from the LHA's waiting list. In co-operative housing corporations funded by the Province, a minimum of 25 per cent of total units must be for "deep need" households.

Our review of tenant placement files and discussions with placement officers revealed that:

- In some cases, referrals by LHAs to non-profits and co-operative housing agencies are not done according to OHC's point system. That is, the most needy are not necessarily referred.



Comments on Ministry and Crown Agency Audits

3.15 cont'd

- Some non-profits and co-operatives refused referrals from LHAs we visited by simply stating that the applicant was not suitable for their project. In other cases, non-profits and co-ops have not asked for referrals from LHAs as required. A major municipal non-profit housing agency had not asked for referrals for over three years. In another area, 26 non-profits and co-op projects in the area did not contact the LHA for referrals during this same time period.

According to the LHAs:

- Conflicts have occurred from non-profits using different selection criteria than the LHAs to place tenants. Non-profit housing corporations prefer to use their own selection criteria and select tenants from their own waiting list.
- Although the LHAs we visited stated that referrals are made on a point basis, their desire to have referrals accepted indicates that the deep need applicants with higher point totals were not necessarily the applicants who were referred. In an attempt to foster good relations and encourage non-profits and co-operatives to accept referrals, tenant placement officials in four of the five LHAs visited have referred applicants with lower point totals whom they felt would be more suitable.
- LHAs are frustrated that they lack the authority to make non-profits and co-operatives accept applicants referred to them. In many cases, they were not sure whether any agreement existed regarding referral arrangements. In addition, three of five LHAs visited were not informed by the regional housing offices as to which non-profits or co-ops in the area should be contacting them for referrals.

Options to improve co-ordination of placement effort include community-based central registries and better monitoring for adherence to the placement conditions attached to funding for non-profits and co-operatives.

RESPONSE

The Chairman of the Ontario Housing Corporation responded to our audit report.

MANAGEMENT INFORMATION AND REPORTING

The HOMES Information System

"As mentioned in your report, there were frequent changes in Ministers and senior Ministry management during the development of this system. There were also significant changes in the business of both the OHC and the Ministry, including the introduction of non-profit housing programs, their tremendous growth in a relatively short period, and the assumption and development of rent review. Such significant new business directions were not contemplated during the original approval and proposals for the system. In fact, they adversely affected the project to the extent that the original software vendor... was unable to meet the new requirements without massive customization of the software. We obtained a full credit to be applied to the



Ontario Housing Corporation

3.15 cont'd

purchase of our new software package for the Corporate Financial Information System.

"In your report, you mentioned that the project was discontinued based on the recommendation of the consultant. It should be noted, however, that prior to this, senior management, recognizing the changed business requirements, initiated an internal business case review which was followed by the consultant assignment.

"The consultant provided fifteen recommendations to improve project management and the systems development process. All these recommendations have been implemented. Furthermore, the Ministry prepared an Information Strategic Management Plan which has been approved recently by Management Board. In view of the foregoing, we feel confident that we have taken the necessary steps to strengthen and improve controls, standards, accountability structures and processes for systems development."

Management Operation Review Section (MORS)

"The 'Standards to Success' program, administered centrally by the MOR Section, provided advisory information to the LHAs. It was not a mandatory management information reporting system, unlike those in place for overall budget, salaries, non-recurring (capital improvements) and unit vacancy reports. Overall, the Ministry and LHAs found it overly complex and centralized, for small LHAs in particular.

"Some housing managers rejected the internal peer comparisons as invalid, especially since management cannot greatly influence most costs (and revenue), e.g., municipal taxes and utility costs, salaries and tenant revenue. In addition, the two larger LHAs reviewed had other management review systems in place, and one of them formally proposed the reallocation of MORS staff and resources to other critical OHC functions.

"These reasons led to the discontinuation of the MORS function by the OHC and the Ministry... The Ministry and OHC acted responsibly and effectively in redeploying resources to meet more critical emerging needs. In the meantime, improvements have been made to the mandatory LHA reporting systems for the essential financial and human resources management functions. In particular, revenue forecasting, variance reporting and tracking of capital ('non-recurring') spending are receiving considerable attention."

MAINTENANCE PROJECTS AND SERVICES

Significant Delays in Completion of Major Projects

"The period covered by this finding is not clear in your report. It should be noted that in boom periods, penalty clauses are virtually unenforceable, even for major contractors. The only realistic recourse is documentation of troublesome firms with sufficient substance to disqualify their bids for subsequent work. However, such contractors will still have the appeal process available to them.

"The OHC has delegated approval of contracts over \$300,000 to the Tender Awards Committee. This committee has identified the problems associated with the evaluation



Comments on Ministry and Crown Agency Audits

3.15 cont'd

of contractor performance although there are already documented procedures within the Corporation's manuals and directives on monitoring of contractors. The committee is currently working towards rectifying these problems by identifying specific areas in which clearer direction is required and making proposals to incorporate these changes by Circular Letters into the Housing Authority Administration Manual. Specific training is also being contemplated.

"The planning and co-ordination of major repair and/or replacement activity is sometimes difficult to achieve given the competing and other changing priorities placed upon staff of the LHAs.

"There are 56 Housing Authorities with varying degrees of technical expertise. In many cases, the Regional Offices are very involved in the production of plan specifications, etc. Although the correct process is well documented, factors such as budget funds, delays in technical analysis, availability of specialized trades and the need to address on-going maintenance needs, often interfere with an LHA's ability to manage this process. More work is necessary to strengthen this process and every effort will be made to achieve improvement in the planning, coordination and monitoring of major projects."

Assessing Management of Maintenance Services

"The importance of standards and measures is appreciated and although the MOR Section is no longer functioning, new efforts are under way to achieve the same objectives, namely, Quality Customer Services with a property management orientation. Proposals on this topic will be presented to the OHC Board of Directors in the next few weeks.

"The importance of timely responses to maintenance requirements cannot be underestimated. This objectives is sometimes difficult to achieve, however, given human resources limitations and a growing demand for such services because of the age of the OHC stock.

"As mentioned previously in this response, the MTHA will strive to ensure the input to the Property Management System is kept up to date.

"Your comparison of the cost effectiveness of the LHAs with private management companies are, in our view, inappropriate. Because of various government initiatives, for example, French Language Services, Freedom of Information, etc., the public sector carries a significantly higher overhead than the private sector. In addition, the private management companies retained by the OHC are not required to employ Bargaining Unit staff which accounts for a significant differential in operating costs. Such firms also have special arrangements with suppliers in regards to the purchase of goods and services without having to adhere to the open, and extensive processes followed by the LHAs. In view of the foregoing, we reject your conclusion on cost-effectiveness since your analyses have not considered and eliminated and the aforementioned factors in your comparison."



Ontario Housing Corporation

3.15 cont'd

Better Purchasing and Payment Practices Required for Recurring Expenditures

"We are pleased to note that corporate policies for the acquisition of goods and services for major projects were satisfactorily adhered to. However, the OHC will be re-emphasizing its current policies and procedures to the LHAs to ensure that delays in projects are not experienced in the future and that proper purchasing practices are followed for recurring expenditures. Since January 1991, the Supply & Services Section of the Administrative Services Branch have been conducting regular workshops with the Housing Authorities in order to educate and train them in better purchasing and payment practices. We will also investigate the feasibility of tendering for standing agreements for plumbing and electrical discounts."

RENT REVENUE

Inadequate Income Verification

"The OHC will re-issue instructions to the LHAs emphasizing the importance of complying with the income verification policy."

Low Rent at Private Management Projects

"The MTHA is fully aware of the issue related to rental revenues in privately managed projects. Corrective action has already commenced. During 1990, the MTHA discovered that private management revenues were not keeping pace with the increase experienced by direct MTHA management. As a result, MTHA monitored the revenue earned in private management versus direct management for 1990. Based on the analysis and findings, MTHA is presently conducting an internal audit to ensure that maximum revenues are being collected within the private management portfolio. MTHA will take action based on the audit findings and recommendations."

Inconsistent Treatment of Higher Income Tenants

"The OHC is reviewing its policies on income integration. Imposing a 25% RGI on all incomes constitutes 'economic eviction' when the resulting rent exceeds comparable local rents. On the other hand, a market rent cap leads to more income integration and maintains families in their neighbourhoods, but at the expense of needier applicants. The OHC Board has allowed LHAs local discretion to apply other approaches since LHA portfolios and rental markets vary considerably across the province. This matter is now under review as part of the various consultation processes."

TENANT PLACEMENT

"As the auditor was aware, the Ministry and the OHC are currently examining existing policies and practices through joint working groups with LHAs and non-profit providers on income/social mix and tenant selection. These issues are also part of the



Comments on Ministry and Crown Agency Audits

3.15 cont'd

Housing Framework and Quality of Life in Public Housing Consultation processes. We are obtaining the views of LHA staff, tenants, applicants and community groups as to problems with the system and recommendations for change. All of the points raised by the auditor are being reviewed, both in terms of equity, efficiency and effectiveness of existing policies and practices, and the extent to which policies are not being implemented."

Using Waiting Time to Distinguish Marginally Different Need

"There is a large and growing gap between the number of RGI applicants and available RGI units, both in OHC stock and non-profit/co-operative projects. It is a difficult decision in setting priorities as a basis to measure needs. Federal-provincial agreements also require that federal assistance (50% of OHC funding) be targeted to households in need. This area is not as clear-cut as was suggested in your report because:

- *when two applicants for the same project or location have similar points, LHAs can and do offer the unit first to the earlier applicant; and*
- *there is no evidence to suggest that the longer a person stays on the waiting list, the needier the person is. In fact, some LHAs report that those who are less needy can afford to wait longer than those with severe or urgent housing problems."*

"Nevertheless, the 'time on the waiting list' is a serious subject currently under consideration as part of the above-mentioned consultation processes and with the Federal Government which cost shares operating losses with the province on a 50/50 basis. It should be noted that housing agencies that use a chronological waiting list cannot measure relative need and cannot house the newly eligible (e.g., refugee claimants) or new needy (e.g., presently unemployed or evicted)."

Referrals to Other Funded Housing Providers

"The Local Housing Authorities and the Regional Housing Programs Offices are responsible for monitoring and ensuring that the required number of vacancies are offered by non-profit sponsors for referral purposes. We agree that more information flow is required. In cases where it has been identified that a non-profit group is not honouring its commitments, the Ministry of Housing has, in the past, followed up with the non-profit sponsor to ensure that referrals are made. This is done by informing the non-profit organization that continual non-compliance may lead to discontinuation of subsidy payments. However, the matter again is not as simple as suggested in your report.

"In our Housing Framework Consultation Paper, we have identified 11 issues related to Access to Housing. Some of these include:

- *To what extent should non-profits have a choice of needy applicants referred from Local Housing Authorities?*



Ontario Waste Management Corporation

3.15 cont'd

- *What kinds of social mix targeting is acceptable within assisted housing projects?*
- *In what ways should targeting plans be more flexible?*
- *What changes should be made to allow access to the existing stock for client groups having special needs?*
- *How could a better match be achieved between applicant needs and existing accommodation?*

"An appropriate policy will be developed upon the completion of the consultation process to guide future work in this area."

3.16 Hazardous Waste Treatment Facility and Other Matters, Ontario Waste Management Corporation

The Ontario Waste Management Corporation was established in 1981. The Corporation's objective is to significantly reduce the harmful impact of hazardous and liquid industrial waste on human health and the environment. To achieve this objective, the Corporation has proposed to build a waste treatment and disposal facility and has developed programs to encourage industries to reduce, reuse and recycle their hazardous waste.

The Corporation is wholly funded by grants from the Ministry of the Environment. Since 1981 the Corporation had spent over \$110 million of which \$69.5 million was for professional services and \$23.7 million for salaries and benefits. Most of these expenditures were for projects related to the planned construction of a proposed hazardous waste treatment and disposal facility.

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives included:

- determining the status of the proposed hazardous waste treatment facility; and
- assessing whether consulting and legal services and travel expenses were properly controlled.

CONCLUSIONS AND FINDINGS

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

The Corporation has calculated possible start-up dates and estimated costs in 1990 dollars ranging from November 1995 (\$419 million) to April 1998 (\$480 million).



Comments on Ministry and Crown Agency Audits

3.16 cont'd

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over consulting and legal services were less than satisfactory.

- Numerous consulting assignments were awarded without competition or approval by the Board of Directors to waive competition.
- Many consulting assignments exceeded their original budgets. In one case, a budget of \$40,000 was exceeded by \$250,000.
- There was little or no evidence in the files examined to indicate that the work of consultants was properly supervised or monitored.
- In the 1991 fiscal year payments of \$1.6 million for legal services exceeded the original budget by \$760,000.
- Legal services were acquired without a tender call or other competitive process.

Controls over travel expenditures were satisfactory.

OTHER MATTERS

- Corporation salary ranges for several selected jobs were significantly higher than those of comparable positions in the Ontario Public Service.
- Many expenditures were inappropriate for an organization funded entirely by public monies.

COMMENTARY

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

Construction Requires Appropriate Approvals

The Corporation had decided on a hazardous waste treatment facility with an initial capacity of up to 150,000 tonnes per annum to handle 30,000 tonnes of waste by incineration and 120,000 tonnes by physical/chemical treatment. If required this capacity could be expanded up to 100 per cent. In 1984 the facility was estimated to cost \$144 million and was expected to be in operation by 1989.

In July 1985 an Order-in-Council under the *Ontario Waste Management Corporation Act* required the Corporation to obtain the necessary approvals under the *Environmental Assessment Act*, the *Environmental Protection Act*, the *Ontario Water Resources Act* and any other applicable statutes before establishing the proposed hazardous waste treatment facility.



Ontario Waste Management Corporation

3.16 cont'd

At the time of our audit, the Corporation was involved in an environmental assessment hearing before a joint panel of the Environmental Assessment Board and the Ontario Municipal Board. Approval by the joint panel and ratification by the Provincial cabinet are required before construction can begin. The Corporation has calculated possible start-up dates and estimated costs in 1990 dollars ranging from November 1995 (\$419 million) to April 1998 (\$480 million).

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over Consulting Services Less Than Satisfactory

For the period April 1989 to March 1991, expenditures for consulting services were \$12.5 million. To assess the adequacy of controls over these services, we examined a representative sample of 28 consulting assignments totalling \$2.2 million. We concluded that controls were less than satisfactory. We found that:

- Contrary to Corporation policy 16 assignments, involving payments of \$1.3 million, were awarded without competition (tendering or written quotations) or approval by the Board of Directors to waive competition. Eleven of these assignments, totalling \$1.18 million, ranged between \$25,000 and \$500,000.

Competitive practices help ensure that the best value is received for funds expended, that consultants are treated fairly, and that the consultants selected are the best qualified.

- Twelve assignments exceeded their original budgets of \$1 million by \$780,000. In one case, a budget of \$40,000 was exceeded by \$250,000. For the majority of these assignments, change notices were issued increasing the budgeted or contracted amounts. However, explanations for the significant variances from budgets were generally incomplete or inadequate, as for example "due to revised scope."
- There was little or no evidence in the files examined to indicate that the work of consultants was properly supervised or monitored.

Controls over Legal Services Less Than Satisfactory

The Corporation obtained legal services from two firms. One of the firms had been retained since 1981 to represent the Corporation at environmental assessment hearings and to provide general corporate advice. The other firm had been retained to act as co-counsel with the first firm.

For the fiscal year ending March 31, 1991, payments of \$1.6 million for legal services exceeded the original budget by \$760,000. Management explained that expenditures for legal services exceeded the budget because of unanticipated demands and challenges that arose during the environmental assessment hearings.



Comments on Ministry and Crown Agency Audits

3.16 cont'd

We noted that the two law firms had not been retained through a tender call or other competitive process. Furthermore, the Corporation did not have formal agreements with the two law firms specifying responsibilities, work to be done, hourly rates and expenses, and maximum amounts to be billed.

Senior management informed us that the Corporation had continued to rely on the law firm it had retained since 1981, due to the firm's involvement in the environmental assessment process and the need to have the firm pilot the environmental assessment documents through the hearing process.

A guideline of the Ministry of the Attorney General requires ministries and Schedule 1 agencies to acquire private sector lawyers by tender call and to establish formal agreements for the services to be rendered. While the Corporation is a Schedule 2 agency and is not required to follow the guideline, we believe that it would be prudent business practice to do so, or to adopt some similar policy.

Controls over Travel Expenditures Satisfactory

The Corporation's policies require employees on travel status to use the most practical and economical means of transportation. Travel arrangements are to be made sufficiently in advance, whenever possible, in order to obtain the lowest airfare. Travel outside North America requires prior approval by both the President of the Corporation and the Deputy Minister of the Ministry of the Environment. In their submissions for approval, employees are required to state the estimated costs of the trips, countries to be visited and dates of travel.

For the period April 1987 to December 1990, employees incurred travel expenses of approximately \$660,000, including about \$180,000 for travel outside of North America. **Our tests of a representative sample of travel expenses incurred, both within and outside of North America, did not reveal any significant control deficiencies.**

OTHER MATTERS

Salaries Significantly Higher Than in Comparable Government Positions

Salary range and classification levels had evolved from a study by a management consulting firm in 1985. The firm conducts salary surveys of industrial organizations which are used by the Corporation in determining annual salary range adjustments. For the fiscal year ending March 31, 1991, salaries and benefits paid to the Corporation's 69 employees totalled \$3,880,000.

According to its Memorandum of Understanding with the Ministry of the Environment, the Corporation is required to establish classifications and salary ranges taking into consideration those used in the Ontario Public Service.

As a result of our preliminary review, we were not satisfied that Ontario Public Service classifications and salary ranges were sufficiently taken into consideration when determining the salary ranges of the Corporation's employees.



Ontario Waste Management Corporation

3.16 cont'd

Accordingly, for the 1990 year, we selected 10 jobs to carry out our comparisons. The salaries for these jobs were within the following ranges:

| Range | Number |
|-----------------------|--------|
| Less than \$40,000 | 2 |
| \$41,000 to \$80,000 | 4 |
| \$81,000 to \$125,000 | 4 |

We requested both the Human Resources Secretariat and the Ministry of the Environment to carry out comparisons with similar jobs in the Ontario Public Service.

Responses received indicated that it was difficult to evaluate the jobs and certain assumptions had to be made. Nevertheless, they identified the possible comparable positions. **The comparisons revealed that the salary ranges of five of the ten jobs were significantly higher than those of comparable positions in the Ontario Public Service.** Three of these five jobs were within the \$81,000 to \$125,000 range, while two of the comparable positions in the Ontario Public Service were in the \$67,450 to \$101,200 range and the third was in the \$59,000 to \$88,600 range.

The comparisons for the other five jobs revealed they were within the classification ranges of comparable positions in the Ontario Public Service.

Other Anomalies

We noted that many expenditures for the period April 1989 to December 1990 were inappropriate for an organization funded entirely by public monies.

- Two senior officials spent approximately \$15,000 on hospitality. This hospitality included 381 lunches totalling \$7,000 when only employees of the Corporation were present.
- A senior official who lived in the Metro Toronto area stayed overnight in local hotels on at least 28 occasions, at an average cost of \$140 per night. In most instances written explanations were not provided.
- Instead of using the Corporation's boardroom to discuss Corporate issues, such as OWMC's strategic plan, senior officials held 10 meetings at rented hotel facilities costing \$14,000.



Comments on Ministry and Crown Agency Audits

3.16 cont'd RESPONSE

The response from the Chairman/President included the following comments.

HAZARDOUS WASTE TREATMENT AND DISPOSAL FACILITY

Construction Requires Appropriate Approvals

"The cost estimate of \$480 million is the current best estimate in 1990 dollars which includes an inflation allowance of 6 per cent, and allows for technological improvements and owner's costs which are not included in the 1984 estimate of \$144 million. . . ."

CONSULTING AND LEGAL SERVICES AND TRAVEL

Controls over Consulting Services Less Than Satisfactory

- *"Of the 16 assignments cited, five were for less than \$25,000 and do not require competitive bids to comply with OWMC policies, although two of these did receive competitive bids.*

"Of the remaining 11 assignments, three were, in fact, competitively bid and evaluated. Of the remaining eight, four were not tendered because of the need to maintain continuity of expert witnesses at the hearings. The others were selected without tender due to their special expertise. In the view of management, these were appropriate.

"The Corporation attempted, early in its history, to retain the best consultants through a competitive process, and recognized the need to retain their services throughout the hearing phase. This policy resulted in the Corporation retaining approximately 40 key firms that have acted on the Corporation's behalf in major areas of work. It is vital these consultants remain with this project through to approval: the knowledge and skills they have accumulated are irreplaceable, and many are required on an on-going basis to give highly-technical evidence before the hearing panel in various phases."

- *"The statement that costs incurred for 12 assignments exceeded their original budgets ignores OWMC's Change Notice procedure which is an integral way of controlling and monitoring consultants' assignments. Due to the iterative nature of the hearings process, OWMC prepares budgets for consultancy work on a 'most likely' timetable. The hearings process, which is not under OWMC's control, invariably leads to changes in the budgeted timetable, often resulting in the need for changes in scopes of work, ad hoc requests from the hearings panel for new or revised evidence, and variations in the frequency and content of interrogatory responses requested by opponents. These are features of any hearings process, which the Auditor's report fails to appreciate. The Change Notice procedure is an appropriate means of reflecting these changing requirements and maintaining effective control over expenditures.*

"Expenditures for only three assignments, not 12, exceeded the authorized limit when Change Notices are considered. The one case cited in which a budget of



Ontario Waste Management Corporation

3.16 cont'd

\$40,000 was claimed to be exceeded by \$250,000, in fact, involved two separate Purchase Orders with the same firm. The one was issued in May 1989, and the other issued in May 1990. When the separate Purchase Orders and related Change Notices are taken into account, actual expenditures were within one per cent of the amount authorized."

- *"The auditors in many cases examined only files centrally located in OWMC's Administration and Finance department. Apparently, the auditors chose not to look at the program working files which are kept by the staff in charge of the projects examined. The Corporation is satisfied, had the auditors examined these, they would understand that OWMC controls are effective. OWMC controls and supervises the work of most consultants daily at the program working level. The Finance files only ensure that estimates and costs for work are properly controlled."*

Editorial Note: We were informed by the program staff that their files contained no information on the monitoring of consultants. In addition, the program staff indicated that evidence of such monitoring would be found in the Finance files. Consequently, we did not review the files of the program staff.

OTHER MATTERS

Salaries Significantly Higher Than in Comparable Government Positions

"The Management Board of Cabinet Guideline 6-1-4 states: 'The employees of Schedule II agencies are oriented more toward the activities of business than toward government service. They exercise entrepreneurial skills and a degree of individual initiative and flexibility not normally found within the government.' Since OWMC is a Schedule II agency, that statement alone would seem to make the comparison ill-founded and cast doubts on its validity. . . ."

"OWMC's ranges are determined objectively, based on the Hay Guide Chart/Profile Method of Job Evaluation. The Board chose the Hay system in 1982, on expert advice, over a number of alternatives, in recognition of 'the need for a sound compensation program which would attract the calibre of staff needed for the Corporation to meet its business objectives.' It enables OWMC to compare similar jobs in organizations in the private and public sectors which participate, together with OWMC, in annual salary surveys.

"To compound this problem, the auditors did not select a representative sample of OWMC's positions for comparison. Of 10 selected positions, all four senior management positions were included. The report compared, unfairly, OWMC's 'director' level salary ranges with those of 'directors' in the government; to compare OWMC 'directors' with government 'directors' assumes they are the same: OWMC directors, as department heads, would more favourably compare with the executive director or assistant deputy minister positions in the government, OWMC submits, and the salary range level (SMG 3) for those positions is, in fact, slightly higher than OWMC's range of \$89,000 to \$134,000. OWMC 'directors' report directly to the President who is the equivalent of a Deputy Minister level position in the Ontario Government. Moreover, one of OWMC's 'directors' was hired recently from an



Comments on Ministry and Crown Agency Audits

3.16 cont'd

assistant deputy minister level position in the Ontario Government. A more precise and complete comparison could have concluded the salaries were comparable.

"An additional basis for an objective evaluation also is available. Two of the four directors above were recently hired through international recruitment agencies who established that the salary ranges offered were appropriate for the positions and for the calibre of candidates the Corporation hoped to attract from both the public and private sectors."

Other Anomalies

"Hospitality, use of local hotels for a senior official, and the use of rented hotel facilities for meetings instead of the Corporation's board room have all been monitored, and OWMC considers them reasonable.

- *"Hospitality expenditures at OWMC are tightly controlled. The expenditures of the two senior officials were incurred over an almost two-year period. This was appropriate for the nature of their duties, and all claims were supported by documentation on the business reason for the meeting, the names of the persons in attendance, as well as their affiliation.*
- *"The senior official who lives in Metro Toronto and stayed in hotels on 28 occasions over a 21-month period was staying in each case for reasons entirely related to corporation business. These were late night and early-morning workshops which required his presence beyond usual working hours or for informal meetings with members of the Board of Directors prior to the regular business meeting the next day. Ten of the meetings were with the Board; eight were with OWMC senior management group for strategic planning sessions, one meeting was preparatory to an all-day OWMC full staff meeting, and eight were as a participant in external conferences and workshops.*
- *"The meetings of senior officials to discuss major corporate issues, such as OWMC's strategic plan, took place in outside facilities and continued after regular working hours on what would otherwise be the staff's own time. Some of these meetings were held in nearby hotels so that meals could be provided for evening working sessions, normally held from 6 p.m. to 11 p.m. after a full day of regular work. Rooms were sometimes provided to allow for an early start the next day. Three of OWMC's senior management at that time lived outside of Metro Toronto."*



Newly Established, Terminated and Inactive Crown Agencies

3.17

Newly Established, Terminated and Inactive Crown Agencies

During the 1991 fiscal year, the following changes occurred to the categories of agencies of the Crown and Crown controlled corporations as defined in the Audit Act.

CHANGES IN DESIGNATION OF AGENCIES

The following are no longer agencies of the Crown:

- IDEA Information Technology Fund Inc.
- IDEA Innovation Fund Inc.
- IDEA Research Investment Fund Inc.

In the past, the Provincial Auditor had been appointed to audit these subsidiaries of the Ontario Development Corporation. For the 1991 fiscal year, a public accounting firm was appointed to audit the accounts of the subsidiaries.

The Ontario Mortgage Corporation ceased to be an agency of the Crown and became a Crown-controlled corporation. The Corporation is now being audited by a public accounting firm rather than the Provincial Auditor.

TERMINATED AGENCIES

Corporation of the Improvement District of Kingsford

The Crown-controlled corporation was dissolved effective December 31, 1990 and all the remaining assets, rights, obligations and liabilities were transferred on an interim basis to the Ministry of Municipal Affairs.

Ontario Van Pool Organization Limited

The Crown-controlled corporation was dissolved June 5, 1990.

INACTIVE AGENCIES

As at March 31, 1991 there were five inactive Crown agencies:

- The John Graves Simcoe Memorial Foundation
- Ontario Deposit Insurance Corporation
- Ontario Land Corporation
- Ontario Pavilion Expo '86
- Ontario Telephone Development Corporation





CHAPTER

4

PUBLIC ACCOUNTS
OF THE PROVINCE





CHAPTER 4

PUBLIC ACCOUNTS OF THE PROVINCE

4.1

Preparation of the Public Accounts

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Treasurer as required by the Ministry of Treasury and Economics Act. Published in three volumes, the Public Accounts are delivered to the Lieutenant Governor in Council and are laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

Volume 1 of the Public Accounts contains the financial statements of the Province and other statements and schedules. The Provincial Auditor audits and expresses an opinion on the financial statements, and generally scrutinizes the other information reported in Volume 1.

Included in Volume 2 are reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- (a) in which the Province has an investment, or
- (b) which have borrowed from the Province, or
- (c) which have borrowed from others with a guarantee by the Province.

Volume 2 also contains the audited financial statements of certain significant operational agencies funded in whole or in part by revenues they generate.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. Again the Office generally scrutinizes the information contained therein and any relevant comments would be included in this Chapter.

4.2

Financial Statements of the Province

The audited financial statements and accompanying notes summarize the financial activities of the Province for the fiscal year, and report on the significant aspects of the Province's financial position at the close of the fiscal year.

The Summary of Significant Accounting Policies is an integral part of the financial statements, and appears on pages 1-2 and 1-3 of Volume 1 of the 1990-91 Public Accounts. The Summary provides the reader with a clear understanding of the principles and methods used to present the financial information in the statements. The accounting policies stated in the Summary alert the reader to the differences, some of which are significant, between the policies followed by profit-oriented enterprises and those followed by the Province.

As covered in the Summary of Significant Accounting Policies, the Province's financial statements are prepared using the concept of a Consolidated Revenue Fund, and are designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow an additional 30 days to pay for obligations incurred during the fiscal year just ended. Cash inflows, however, are closed at



Public Accounts of the Province

4.2 cont'd

March 31. Under the Consolidated Revenue Fund concept the activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and is no less informative than the accrual basis of accounting. The method used is appropriate to the needs of its two primary user groups, legislators and the general public.

The Office of the Provincial Auditor fully supports this position.

4.3

Provincial Auditor's Opinion

The Provincial Auditor's opinion is stated as follows:

I have audited the statement of financial position of the Province of Ontario's Consolidated Revenue Fund as at March 31, 1991 and the statements of financial transactions, revenue, expenditure, financing, and loans and investments for the year then ended. These financial statements are the responsibility of Office of the Treasury management, Ministry of Treasury and Economics. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

This audit was planned and performed to obtain a high degree (99 per cent) of assurance that the aggregate total of any misstatements in the financial statements was less than \$90 million.

In my opinion, these financial statements in all material respects present fairly, in accordance with the stated accounting policies, the financial position of the Province's Consolidated Revenue Fund as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended. As required by the Audit Act, I report that, in my opinion, the stated accounting policies have been applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading 'D.F. Archer'.

Toronto, Ontario,
July 19, 1991.

D.F. Archer, F.C.A.,
Provincial Auditor.



Advance Payments Affecting the Deficit

4.4

Advance Payment of Expenditure - Its Effect on the Deficit

We have commented in our 1989 and 1990 Annual Reports on the practice of paying expenditures in advance, and on the resultant effect on the provincial deficit. The practice was continued this year.

Unfunded liability payments to the Ontario Teachers' Pension Fund (\$196 million), that normally would have been paid in the 1992 fiscal year, were preflowed and charged to expenditure in the 1991 fiscal year. The reported deficit for the year ended March 31, 1991 was thereby increased by the amount of the advance payment.

The practice of preflowing expenditures, particularly in the absence of a consistent pattern, can be viewed as an attempt to "manage" operating results. To allay any doubts concerning the integrity of the accounting process, we reiterate the recommendation in last year's Report - that the Government treat preflows as advances rather than expenditures. These advances could then be reported as financial assets at year end and appropriately converted to expenditure in the succeeding year.

4.5

Non-Recurring Expenditure

Included in the Statement of Expenditure are two items of a non-recurring nature, totalling \$728 million. Guarantees of \$407 million in connection with the 1986 sale of the Urban Transportation Development Corporation Ltd. were honoured. Additionally, an investment of \$321 million in the Stadium Corporation of Ontario Limited was written off. An explanation of these two expenses follows:

Urban Transportation Development Corporation Ltd.

In 1986, the Corporation sold its fixed assets, technology, inventory and other assets and contracts to Lavalin Enterprises Inc. Lavalin purchased the assets through a new company, UTDC Inc. Under the terms of this sale, however, the Corporation retained its existing major contracts, remaining responsible for the completion of these contracts and for all warranty and performance related matters.

In completing these contracts, revenues were insufficient to offset the expenses. To the extent that the Corporation did not have its own funds to cover these expenses, it received financing through the issuance of preferred shares to an affiliated company, The Ontario Transportation Development Corporation (OTDC). In turn, OTDC financed the purchase of these shares through bank loans, which were guaranteed by the Province.

During the months of November and December 1990, the Province paid OTDC \$395 million, which in turn was used to discharge its bank loans.

The Province also paid \$12 million to UTDC in the first quarter of 1991 so the Corporation would have sufficient funds to complete the wind up of its operations. Senior management of the Corporation was of the opinion that, with this additional infusion of cash, UTDC had sufficient funds to completely liquidate all of its remaining obligations.



Public Accounts of the Province

4.5 cont'd

The preceding payments totalling \$407 million were authorized by Special Warrant dated October 24, 1990 (\$400 million) and by Management Board Order dated March 26, 1991 (\$7 million).

Stadium Corporation of Ontario Limited

By Order in Council dated January 10, 1991 the Treasurer was authorized to invest in promissory notes and other securities of this Corporation, of which the Province is the sole shareholder. To the end of March, the Province's total investment in promissory notes was \$321 million. This money was used by the Corporation to discharge its bank indebtedness, which had been guaranteed by the Province.

An Order in Council dated April 25, 1991 authorized the writing off of this \$321 million as at March 31. The following factors are relevant:

- Under the terms of a May 1986 agreement between the Corporation and the consortium of private sector corporations that also contributed to the financing of the SkyDome, the Corporation undertook the responsibility for completion of the construction of the SkyDome. On May 20, 1986 the then Treasurer signed an acknowledgement on behalf of the Province stating that the Province would be responsible for the financial obligations of the Corporation under that agreement.
- The final costs of constructing the SkyDome were much greater than initially anticipated. For a number of reasons these costs, which in early 1986 were estimated at \$225 million, had grown to approximately \$585 million by the end of 1990.

Major expansions to the originally planned scope and scale of the project were a significant contributing factor - a hotel, fitness club, restaurants and food preparation areas, backlit billboards and additional private boxes.

- As a result, a large portion of the project was financed through bank loans. In turn, the net income generated from the use of the Sky Dome was inadequate to cover the interest on these loans (now converted to promissory notes). The Corporation's audited financial statements for the year ended December 31, 1990 reported net income of \$17.2 million before interest and depreciation. After providing for interest (\$39.2 million) and depreciation (\$17.2 million), the loss for the year was \$39.2 million.
- An assessment by the Ministry of Treasury and Economics of future cash flows indicated that the Corporation was not likely to have sufficient cash flows for many years to pay off the promissory notes.
- Efforts to negotiate a refinancing agreement with the members of the consortium had not proven fruitful as at March 31, 1991.

In the circumstances, the Government decided to write off the promissory notes. This write-off was consistent with the accounting policies of the Province, whereby asset



The Consolidated Revenue Fund

4.5 cont'd

values are adjusted when it can be determined that the value of their underlying security has diminished or when the Province's asset is not likely to be fully recovered.

However, the write off of these notes does not absolve the Corporation from its legal obligation to eventually pay them off. The notes are being rolled over as they become due in order to maintain the Corporation's obligation. The notes are still being recorded as memo accounts receivable in the Province's records (See Public Accounts, Section 3 of Volume 1).

In this regard, negotiations are continuing with the members of the consortium in an attempt to arrange a refinancing agreement for the SkyDome.

4.6

The Consolidated Revenue Fund

- Authorized and Actual Payments

Authorized Payments

Government revenues and expenditures are channelled through a single fund, the Consolidated Revenue Fund. All public monies received are pooled in the Fund. Expenditures from the Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of these expenditure approval mechanisms is more fully explained as follows.

Voted Appropriations

Prior to the passage of the Supply Act, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1991 fiscal year the time periods covered by the motions of interim supply, and the dates the motions were agreed to by the Legislature, were as follows:

- April 1, 1990 to June 30, 1990 - passed March 27, 1990
- July 1, 1990 to October 31, 1990 - passed June 27, 1990
- January 1, 1991 to April 30, 1991 - passed December 20, 1990

Payments for the period November 1, 1990 to December 31, 1990 were authorized by Special Warrants. The nature of this authority is more fully explained later in this section.

When the Legislature approves the Supply Act, the annual estimated expenditures (Estimates and Supplementary Estimates) are formalized as Voted Appropriations. The Supply Act, 1991, pertaining to the fiscal year ended March 31, 1991, received Royal Assent on June 13, 1991. The Supply Act was delayed because the Legislature dissolved (for the called election) before all the Estimates had been reported to the Assembly.



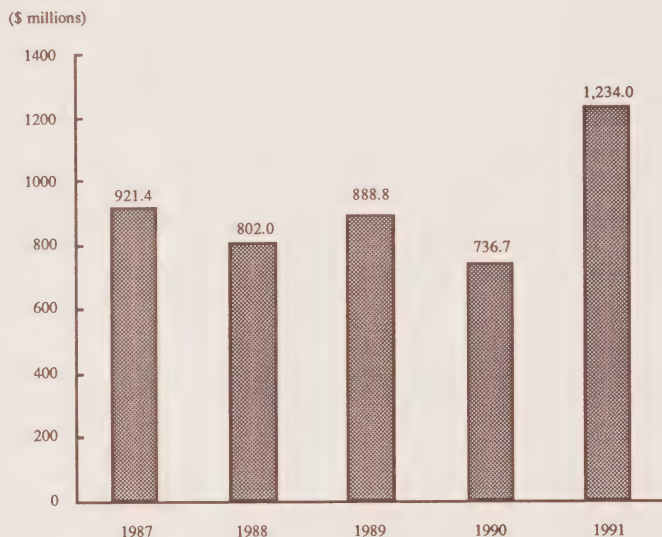
Public Accounts of the Province

4.6 cont'd

Management Board Orders

When an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, section 5 of the Management Board of Cabinet Act allows the Board to make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:



The Management Board Orders for the 1991 fiscal year summarized by month of issue are as follows:

| <i>Month of Issue</i> | <i>Number</i> | <i>Authorized \$</i> | <i>%</i> |
|-------------------------------|---------------|--------------------------|--------------|
| October 1990 to February 1991 | 19 | 604,907,500 | 49.0 |
| March 1991 | 30 | 365,775,600 | 29.6 |
| April 1991 | <u>24</u> | <u>263,357,400</u> | <u>21.4</u> |
| | <u>73</u> | <u>1,234,040,500</u> | <u>100.0</u> |

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.



The Consolidated Revenue Fund

4.6 cont'd

Special Warrants

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the Supply Act. However, when the Legislature is not in session, section 4 of the Management Board of Cabinet Act provides for the issue of a Special Warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

Two Special Warrants totalling \$10,885,922,936 were issued during the year ended March 31, 1991. The Special Warrants were approved by an Order in Council dated October 24, 1990. Payments for both the general and necessary expenditures of the Government, and for the general and necessary expenditures of the Offices of the Chief Election Officer, the Legislative Assembly, the Ombudsman and the Provincial Auditor, were authorized by these Special Warrants.

The amounts of the Special Warrants were based on the anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The total approved by the Supply Act, 1991 excluded the amount authorized by the two Special Warrants.

In accordance with a Standing Order of the Legislature, summaries of the Special Warrants were tabled on the first Sessional day following the issue of the Warrants.

Statutory Appropriations

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required, as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual Estimates the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Management Board Order is required.



Public Accounts of the Province

4.6 cont'd

Comparison of Authorized and Actual Expenditures

The comparison for the fiscal year ended March 31, 1991 is as follows:

| | Authorized (\$ millions) | Actual (\$ millions) |
|--------------------------|-----------------------------|-------------------------|
| Voted Appropriations | | |
| Estimates | 29,608 | 29,038 |
| Management Board Orders | <u>1,234</u> | <u>1,197</u> |
| | 30,842 | 30,235 |
| Statutory Appropriations | 4,900* | 6,159 |
| Special Warrants | <u>10,886</u> | <u>10,886</u> |
| | <u>46,628</u> | <u>47,280</u> |

* Expected expenditure

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

4.7

Write-off of Uncollectible Accounts

Under section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

Public Accounts Presentation

As explained in the Public Accounts' Summary of Significant Accounting Policies, the assets recorded in the financial statements are essentially those resulting from financial claims on other parties which have been created through cash transactions made by the Province. Thus loans, advances and investments made by the Province are normally recorded as assets. On the other hand accounts receivable, such as taxes receivable, are not included as assets as they are usually not the result of cash transactions made by the Province.

The majority of receivables represent amounts owing to the Province under various revenue-producing activities and are listed as memorandum accounts receivable. In addition, certain loans are included in the memorandum listing rather than on the Statement of Financial Position. These loans have one or more of the following characteristics:

- either no specific security or security of limited value;
- no specific repayment terms;



Write-off of Uncollectible Accounts

4.7 cont'd

- repayment is conditional only on future uncertain events.

These loans are considered to be in the nature of "recoverable grants" and are treated as expenditure when made and as revenue when repaid. The major examples of loans in this category are the Ontario Rental Construction Loan Program and the Non-Residential Rental Conversion Pilot Project.

A memorandum listing of the \$1.6 billion in outstanding accounts receivable as at March 31, 1991 (1990 \$1.1 billion) is provided on pages 3-28 to 3-31 of Volume 1 of the Public Accounts.

Most write-offs do not affect the Deficit of the Province as they relate to the memorandum accounts receivable. The major exceptions relate to the write-off of performance and term loans made by the Development Corporations from funds advanced by the Province. The advances are recorded as assets in the Statement of Financial Position. When performance loans are forgiven, or term loans are deemed uncollectible, the Corporations write off the loans, and monies appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances. The appropriated monies are treated as expenditures for Public Accounts purposes and thus affect the Province's Deficit.

1991 Write-offs

A total of \$387.0 million was written off in the 1991 fiscal year, as indicated on page 3-25 of Volume 1 of the Public Accounts. Excluding the non-recurring write-off of \$321 million in advances to the Stadium Corporation of Ontario Limited (see Section 4.5), the remaining write-offs amounted to \$65.5 million (1990 \$90.7 million). The major portion of these write-offs related to the following:

- The Ministry of Industry, Trade and Technology wrote off \$21.4 million. Of this amount, \$11.8 million pertained to uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful. The Ontario Development Corporation considered the remaining \$9.6 million to be two special account write-offs, one of which dealing with a truck trailer manufacturer is referred to in Section 3.8.
- A \$19.0 million write-off was made by the Ministry of Revenue for unpaid taxes and GAINS overpayments. The major write-offs were as follows:

| | (\$ millions) |
|----------------------|---------------|
| Retail Sales Tax Act | 7.9 |
| Corporations Tax Act | 5.8 |
| Tobacco Tax Act | 3.9 |



Public Accounts of the Province

4.7 cont'd

Other write-offs of uncollectible debts included the following:

The Ministry of Community and Social Services wrote off \$8.0 million with respect to overpayments under the Family Benefits Act. Most of this write-off involved situations where: the account was over three years old and the ministry was unable to pursue further; evidence was insufficient to pursue in court; overpayment was greater than the restitution ordered by the court.

The Ministry of Financial Institutions wrote off \$6.3 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off related to situations where: no judgement was issued and the debt is no longer considered collectible; payments were made from the Fund when unidentified hit and run drivers were involved; no payments were made on claims/judgements for five years; debtor was killed at the time of the accident, or died subsequently, without leaving any estate or assets.

Uncollectible accounts totalling \$4.0 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. The majority of these write-offs involved accounts at least four years old.

The Ministry of Colleges and Universities wrote off \$2.2 million for various student support programs. Virtually all of this write-off pertained to loans made to students who had declared bankruptcy.

The Ministry of Health wrote off \$1.3 million in the 1991 fiscal year. The major portion of this write-off related to arrears of OHIP employee group, and pay direct, premiums owing when OHIP premiums were replaced by the Employer Health Tax effective January 1, 1990.

Defaulted guaranteed bank loans of \$1.0 million, relating to the Ontario Farm Adjustment Assistance Program, were written off by the Ministry of Agriculture and Food. This represented the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

4.8 Transfers Authorized by Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, the Provincial Auditor is required to make special mention of the transfer(s) in his report.

In respect of the 1990-91 expenditure estimates, the following transfers totalling \$1,875,000 were made within Vote 201:

| | | | |
|-------|---------|----------------------------------|------------|
| From: | Item 4 | Broadcast and Recording Services | \$ 700,000 |
| | Item 7 | Assembly Services | 1,175,000 |
| To: | Item 2 | Office of the Clerk | 239,000 |
| | Item 6 | Office of the Controller | 500,000 |
| | Item 8 | Sessional Requirements | 700,000 |
| | Item 10 | Members' Office Support Services | 76,000 |
| | Item 11 | Caucus Support Services | 360,000 |



CHAPTER

5

**OFFICE OF THE
PROVINCIAL AUDITOR**





CHAPTER 5

OFFICE OF THE PROVINCIAL AUDITOR

5.1

Independence of the Provincial Auditor

To be effective in carrying out its work, the Office of the Provincial Auditor must be able to proceed without interference in formulating unbiased audit opinions and audit reports. Additionally, the Office must be perceived to be independent by all those, including the general public, directly or indirectly affected by the Office's activities.

The independence of the Provincial Auditor has been ensured by the provisions of a separate legislative act, the Audit Act. The Provincial Auditor and the Office of the Provincial Auditor are independent of the Government and its administration. Neither the Provincial Auditor, nor the employees of the Office of the Provincial Auditor, are employees of the Government. More precisely, the Provincial Auditor is appointed an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. Thus, the Provincial Auditor is accountable to the public through their elected representatives.

For Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process. The Audit Act requires the Office's expenditures to be audited annually by a firm of chartered accountants appointed by the Board. The audited statement of expenditure for the 1991 fiscal year has been submitted to the Board and tabled in the Assembly. It is reproduced in Section 5.10.

5.2

Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

5.3

Audit Responsibilities

The Provincial Auditor, internal auditors and public accounting firms may be involved in auditing the Government in the following areas:

- ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and
- the Province's financial statements.



Office of the Provincial Auditor

5.3 cont'd

The Provincial Auditor

Primary Responsibility

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

Audit responsibilities, however, do not extend to Government policy matters. The Office audits neither Government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The Government is held accountable for policy matters by the Legislature, which continually monitors and challenges Government policies and programs through questions in the House and reviews of legislation and expenditure estimates.

Ministries

The Provincial Auditor, per section 9(1) of the Audit Act, is required to audit Government ministries. While value for money audits are the primary focus, the Office also carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's financial statements. Exhibit 2 lists the ministry audits covered by this Report.

Agencies of the Crown

The Provincial Auditor, per section 9(2) of the Audit Act, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 3, part (i), lists the agencies audited for the 1991 fiscal year.

Additional Audit Responsibilities

Under section 16 of the Audit Act, the Provincial Auditor may be directed by the Standing Committee on Public Accounts to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

Section 5.6 of this Report indicates the status of recent assignments carried out under these sections of the Audit Act.



Audit Activities

5.3 cont'd

Other Auditors

Internal

Internal auditors of ministries and agencies undertake audits on behalf of management. Their audits focus on controls for the safeguarding of assets and the accuracy of essential financial information, and on controls concerned with value for money and accountability considerations. The Office avoids duplication of effort by relying, wherever possible, on work done and on reports issued by the internal auditors.

Public Accounting Firms

Section 9(2) of the Audit Act requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Act, public accounting firms auditing Crown controlled corporations must deliver to the Provincial Auditor a copy of their completed audited financial statements, together with a copy of their findings and recommendations to management (management letter). Public accounting firms also are currently contracted by our Office to audit several of the agencies of the Crown listed in Exhibit 3, part (i); however, the responsibility for these audits still remains with our Office.

The agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1991 fiscal year are listed in Exhibit 3 part (ii) and Exhibit 4, respectively.

5.4 Audit Activities

Types of Audits

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under section 13 of the Audit Act. A brief description of each of these categories follows.

Value for Money

Section 12 of the Audit Act requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.



Office of the Provincial Auditor

5.4 cont'd

Value for money auditing of transfer payment recipients may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies. The Provincial Auditor is not directly involved in this value for money audit process, but may become indirectly involved when assessing the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well-managed.

Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

Attest

Attest (financial) audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies. The Office conducts attest audits on the financial statements of the Province and various Crown agencies on an annual basis.

Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of Government expenditures, are payments for which the Province does not directly receive goods or services.

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not normally value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

Inspection audits may also be carried out by ministry internal auditors under the terms of agreements with the grant recipients.

Scheduling of Audit Activities

Ministry Audits

All major ministry programs (annual expenditures exceeding \$40 million) are considered for audit over a five-year period. The cyclical audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. Ministry expenditure systems that are processed centrally are



Ministry and Agency Reports

5.4 cont'd

similarly considered for audit on a cross-ministry basis every five years. Additionally, smaller programs and activities, particularly information systems, may also be audited.

The frequency of the cyclical audits depends on such factors as total ministry expenditures, impact of a program on the public, diversity and complexity of operations, results of previous cyclical audits, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister. The Office may also carry out internally generated special assignments.

Agency Audits

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

5.5

Ministry and Agency Reports

Reporting Process

The Office prepares a draft report as each audit is completed. The draft is discussed with senior ministry/agency officials and revised, if necessary, to reflect the results of the discussion. We issue a final report to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. Also, we send a copy of all final reports to the Secretary, Management Board of Cabinet.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

5.6

Additional Reporting Matters

Special Assignments

Under sections 16 and 17 of the Audit Act, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (September 1990 to August 1991) covered by this Report, the Office was involved with three special assignments:

- At the request of the Standing Committee on Public Accounts, the Office undertook an audit of the process used by the Ministry of Industry, Trade and Technology for the production of the book and video entitled "Ontario - Share the Vision." We reported to the Committee in December 1990.



Office of the Provincial Auditor

5.6 cont'd

- The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report on the guidelines that Deputy Ministers are required to follow with respect to the use of these expenditures. The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have which might be implemented to improve the accountability of the use of these expenditures. We expect to report to the Committee early in the fall session of the Legislature.
- As The Ontario Educational Communications Authority (TV Ontario) had been the subject of much adverse commentary and allegation concerning senior management and the administration of the Authority's resources, the Secretary of Cabinet requested our Office to investigate the many issues relating to fiscal responsibility and any other matters the Office considered relevant. This request was confirmed in discussion with the Minister of Culture and Communications. We expect to report to the Secretary in September 1991.

5.7

Annual Report

Reporting Process

Under section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations.

The main body of the Annual Report consists of sections extracted from audit reports on ministries and agencies issued during the period to August 31, 1991. The Report may also include excerpts from reports on special assignments for a Minister, or from the reports to management prepared by the auditors of agencies of the Crown or Crown controlled corporations.

The Report material is selected by senior management using criteria which include: monetary significance; public sensitivity or safety (environment, health care); and adherence to good management practices (economy, efficiency, effectiveness).

The selected report items together with relevant ministry/agency responses received up to September 15 only (due to translation and printing requirements) are included in the Annual Report. Responses received after September 15 are forwarded separately to the Standing Committee on Public Accounts.

The Standing Committee on Public Accounts receives the Report for review after it is tabled in the Assembly, normally in November, and subsequently calls upon representatives of the ministries or agencies to discuss selected sections.

Annual Report Briefing

An Annual Report briefing is held each year prior to the tabling of the Report. Separate and simultaneous lockups are arranged for: members of the Assembly and their research staff; representatives of the media; and representatives of ministries, agencies of the Crown and central agencies. When the lockups conclude the Provincial Auditor holds a news conference to answer the media's questions.



Public Disclosure of Reports

5.8 Public Disclosure of Reports

Annual Report

The Annual Report becomes available to the public when it is tabled in the Legislative Assembly. Also, when the Annual Report is reviewed by the Standing Committee on Public Accounts, the public may attend the meetings.

Other Reports

As previously noted, at the conclusion of ministry or agency audits, or special assignments for a Minister, the Office prepares individual audit reports. In addition, the external auditors of agencies or Crown controlled corporations submit reports to management. None of the aforementioned reports are submitted to the Legislative Assembly or to the Standing Committee on Public Accounts, or otherwise made public. However, the Standing Committee on Public Accounts or any other committee of the Assembly can request the reports if they are deemed necessary to carry out its mandated responsibilities. The reports become public documents when laid before the committee.

Reports on special assignments for the Legislative Assembly, or a committee of the Assembly, become public documents when they are tabled.

Draft reports for ministries and agencies are considered to be an integral part of our audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

The Office has not been designated as an institution to which the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, apply.

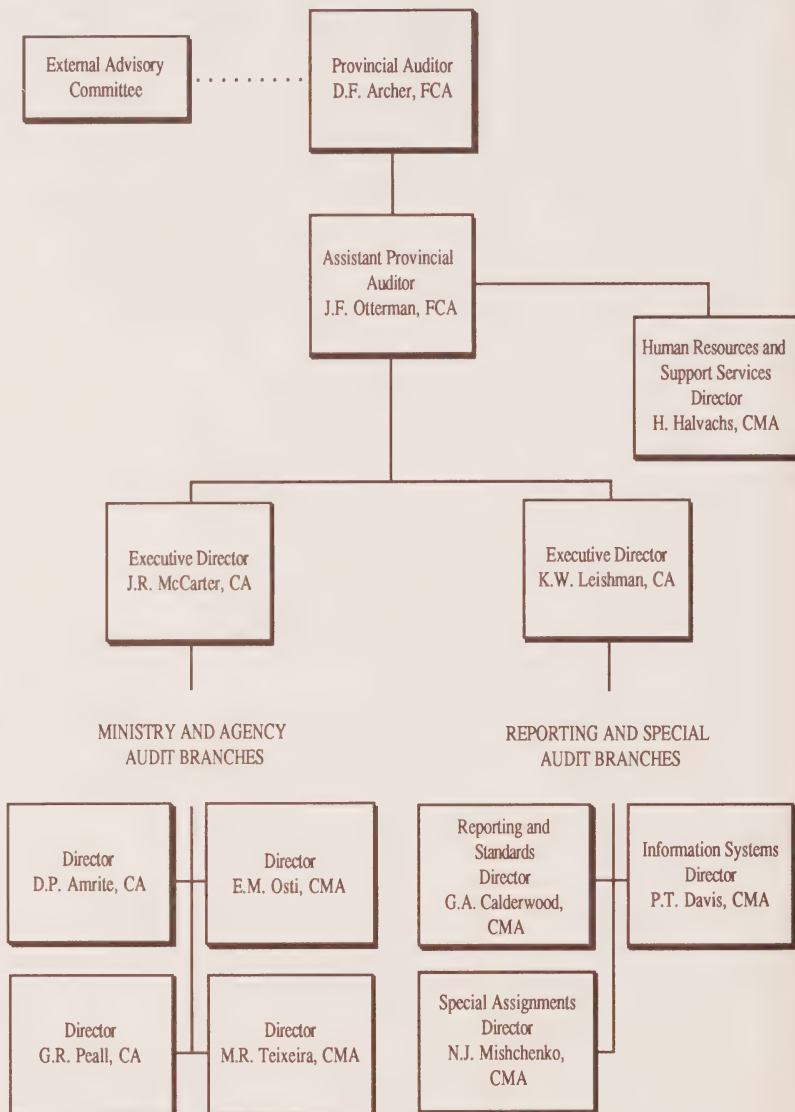


Office of the Provincial Auditor

5.9

Office Organization and Personnel

The staff complement of the Office at August 31, 1991 was 115 and the Office was organized as follows:





Office Organization and Personnel

5.9 cont'd

Ministry and Agency Audit Branches

These four branches audit ministries on a cyclical basis and agencies of the Crown annually.

Reporting and Standards Branch

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

Information Systems Branch

This branch's main responsibilities involve the auditing of information systems and the provision of technical support and training to other branches.

Special Assignments Branch

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

Advisory Committee

The external Advisory Committee assesses the Annual Report and other publicly issued reports, periodically reviews the Office's audit approach, analyses the Office profile, and provides advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of Government. The five members are:

- | | |
|-----------------|---|
| Rendall Dick: | former Deputy Attorney General and Deputy Treasurer of Ontario; |
| Patrick Reid: | former Labour/Liberal MPP; past Chairman of the Public Accounts Committee; |
| Jack Stokes: | former New Democratic MPP and Speaker of the Legislative Assembly; |
| George Taylor: | former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario; |
| Adam Zimmerman: | Vice-Chairman, MacMillan Bloedel; Chairman, Noranda Forest Inc. |



Office of the Provincial Auditor

5.10 Office Expenditure

The following is the 1991 audited Statement of Expenditure for the Office.

| Office of the Provincial Auditor Statement of Expenditure year ended March 31, 1991 | | | | |
|---|------------------|------------------|------------------|------------------|
| | 1991 | | 1990 | |
| | Actual \$ | Estimates \$ | Actual \$ | Estimates \$ |
| Salaries and wages | 4,708,966 | 5,167,000 | 4,565,374 | 5,367,200 |
| Employee benefits | 963,510 | 667,000 | 583,274 | 665,000 |
| Transportation and communication | 255,910 | 277,000 | 251,074 | 277,000 |
| Services | 1,143,349 | 1,360,500 | 1,223,118 | 1,112,000 |
| Supplies and equipment | 356,644 | 134,500 | 120,152 | 116,000 |
| Transfer payment - Canadian Comprehensive Auditing Foundation | <u>50,000</u> | <u>50,000</u> | <u>48,000</u> | <u>48,000</u> |
| | 7,478,379 | 7,656,000 | 6,790,992 | 7,585,200 |
| The Audit Act | <u>122,095</u> | <u>123,000</u> | <u>117,560</u> | <u>95,200</u> |
| | <u>7,600,474</u> | <u>7,779,000</u> | <u>6,908,552</u> | <u>7,680,400</u> |

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended.

2. Estimates

The estimates shown above are those voted and approved, including supplementary estimates where applicable.



Canadian Conference of Legislative Auditors

5.10 cont'd

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1991. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1991 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 5, 1991

ALLEN, MILES, FOX & JOHNSTON
CHARTERED ACCOUNTANTS

5.11

Canadian Conference of Legislative Auditors

The nineteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Winnipeg from August 11 to 13, 1991. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- performance reporting by governments;
- audit of transfer payment recipients;
- federal and provincial deficit spending; and
- government accounting matters.





CHAPTER

6

THE STANDING COMMITTEE
ON PUBLIC ACCOUNTS





CHAPTER 6

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

6.1

Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 28, 1990, soon after the commencement of the first session of the Thirty-fifth Parliament. The current membership of the Committee is as follows:

Robert Callahan, Chair, Liberal
 Dianne Poole, Vice-Chair, Liberal
 James Bradley, Liberal
 Sean Conway, Liberal
 W. Donald Cousens, Progressive Conservative
 Christel Haeck, New Democrat
 Pat Hayes, New Democrat
 Paul Johnson, New Democrat
 Ellen MacKinnon, New Democrat
 Lawrence O'Connor, New Democrat
 David Tilson, Progressive Conservative
 Drummond White, New Democrat

6.2

Role of the Committee

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.



The Standing Committee on Public Accounts

6.2 cont'd

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

6.3 Committee Procedures and Operations

General

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

Meetings Held

From November 1990 to August 1991 the Committee held 18 public meetings, which included reviews of the results of the Provincial Auditor's inspection audit activities in universities and school boards. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature. The Committee also held a number of meetings related to OHIP billings, with particular emphasis on increased billings from drug and alcohol treatment centres located in the United States. As part of the Committee's review of this subject, a sub-committee visited treatment centres in the United States to gain some insight into the reasons for the increased use of such centres by Ontario residents.

Motion Passed at Meeting

Audit of Deputy Ministers' Expenses

On May 9, 1991 the Committee passed a motion requesting the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report to the Committee on the guidelines that Deputy Ministers were required to follow with respect to the use of these expenditures.

The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have to improve the accountability of the use of these expenditures.



Reports of the Committee

6.3 cont'd

Committee Procedures

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- more frequent reports to the Legislature;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain firsthand knowledge of everyday working conditions in the field.

6.4

Reports of the Committee

General

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

Completed Reports

The Committee tabled a report in the Legislature in July 1991. The report contained recommendations related to the following:

- Ministry of Education
 - Inspection audits of school boards
- Ministry of Colleges and Universities
 - Inspection audits of universities

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.



The Standing Committee on Public Accounts

6.5

Status of Committee Recommendation Respecting Amendments to the Audit Act

In a June 1990 Report to the Legislature, the Committee endorsed the Provincial Auditor's proposals respecting amendments to the Audit Act. In this regard, the Committee recommended that the proposed amendments to the Act be drafted and introduced for first reading as soon as possible and preferably in 1990. On December 13, 1990 the Office's draft of the proposed revisions to the Act was submitted to the Treasurer and Minister of Economics, the Minister legislatively responsible for the Audit Act, for his consideration.

The Treasurer subsequently advised that government officials were reviewing the proposed revisions. After the review is completed, the amending legislation will be introduced in the House.

6.6

Other Committee Activities

Canadian Council of Public Accounts Committees

The thirteenth annual meeting of the Council was held in Winnipeg from August 11 to 13, 1991. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information. The 1991 meeting was attended by five members of the Ontario committee.

The annual meeting included: a round-table discussion of each delegation's Public Accounts Committee activities during the past year; sessions dealing with Crown corporations; and, a joint session with the Conference of Legislative Auditors (Section 5.11).



EXHIBITS

1. Cross-Ministry and Special Audits.
2. Ministry Audits.
3. Agencies of the Crown, year ended March 31, 1991.
4. Crown Controlled Corporations, year ended March 31, 1991.
5. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1991.
6. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.





EXHIBIT 1

Cross-Ministry and Special Audits

CROSS-MINISTRY AUDITS

- *
 - Government Mainframe Computers
 - Correctional Services
 - Government Services
 - Revenue
- *
 - Government Microcomputers
 - Agriculture and Food
 - Attorney General
 - Colleges and Universities
 - Community and Social Services
 - Energy
 - Housing
 - Industry, Trade and Technology
 - Labour
 - Municipal Affairs
 - Solicitor General
- *
 - Government Minicomputers
 - Community and Social Services
 - Consumer and Commercial Relations (Liquor Licence Board)
 - Culture and Communications
 - Education
 - Environment
 - Financial Institutions (Ontario Securities Commission)
 - Government Services
 - Health
 - Labour
 - Municipal Affairs
 - Natural Resources
 - Northern Development and Mines
 - Tourism and Recreation
 - Transportation
 - Treasury and Economics
- *
 - Government Payments System
 - Community and Social Services
 - Consumer and Commercial Relations
 - Culture and Communications
 - Environment
 - Government Services
 - Health
 - Natural Resources
 - Revenue
 - Solicitor General
 - Transportation



Exhibit 1

SPECIAL AUDITS

Reviews for the Standing Committee on Public Accounts

- "Ontario - Share the Vision" - Book and Video Production

** Inspection Audits - Ministry of Education*

- Dufferin - Peel Roman Catholic Separate School Board
- Peel Board of Education
- Simcoe County Board of Education
- Simcoe County Roman Catholic Separate School Board
- Board of Education for the City of Windsor
- Windsor Roman Catholic Separate School Board

Inspection Audits - Ministry of Health

- * • Toronto East General and Orthopaedic Hospital Inc.
- * • The Toronto General Division of The Toronto Hospital

Other

- * • Trends in Staffing Levels in Ontario School Boards
- Workers' Compensation Board - Investments

*These matters appear in Chapter 2 of this Report.



EXHIBIT 2

Ministry Audits

Agriculture and Food

- Farm Tax Rebates

- * • Food Quality and Standards

Community and Social Services

- * • Non-residential Developmentally Handicapped Agency
 - Surrey Place Centre
- Ontario Drug Benefit Plan

Environment

- * • Waste Management

Financial Institutions

- * • Deposit Institutions e.g.:
 - Credit Unions
 - Trust Companies

Health

- Assistive Device Services
- * • Hospital Operating Grants
- * • Ontario Drug Benefit Plan

Industry, Trade and Technology

- * • Industrial Assistance - Loans, Repayable Grants

Labour

- * • Employment Standards
- * • Construction Health and Safety

Office Responsible for Women's Issues

- Ontario Advisory Council on Women's Issues
- * • Ontario Women's Directorate

Tourism and Recreation

- * • Grants for Recreation, Sports and Fitness

Transportation

- * • Municipal Transit - Operations and Capital and Construction

*These matters appear in Chapter 3 of this Report.

EXHIBIT 3



Agencies of the Crown
year ended March 31, 1991

(i) Agencies whose accounts are audited by the Provincial Auditor.

- * Accountant of the Supreme Court of Ontario, The
- Agricultural Rehabilitation and Development Directorate of Ontario
- Alcoholism and Drug Addiction Research Foundation
- * Algonquin Forestry Authority
- Centennial Centre of Science and Technology, The
- Commission on Election Finances
- * Crop Insurance Commission of Ontario, The
- * Eastern Ontario Development Corporation
- Egg Fund Board (December 31)
- Election Act, 1984, The, - Election Fees and Expenses
- Environmental Compensation Corporation
- * Farm Income Stabilization Commission of Ontario
- Fund for Milk and Cream Producers, The, -
- The Ontario Farm Products Marketing Commission
- Grain Financial Protection Board
- * Innovation Ontario Corporation
- Legal Aid Fund, Law Society of Upper Canada, The
- * Liquor Control Board of Ontario
- Liquor Licence Board of Ontario
- Live Stock Financial Protection Board, The
- North Pickering Development Corporation
- * Northern Ontario Development Corporation
- Northern Ontario Heritage Fund Corporation
- Office of the Assembly
- Office of the Information and Privacy Commissioner
- Office of the Official Guardian
- Office of the Ombudsman
- Ontario Agricultural Museum
- Ontario Cancer Treatment and Research Foundation, The
- * Ontario Development Corporation
- Ontario Educational Communications Authority, The
- Ontario Film Development Corporation, The
- Ontario Food Terminal Board
- Ontario Heritage Foundation, The
- * Ontario Housing Corporation (December 31)
- Ontario Industrial Training Institute
- * Ontario International Corporation
- * Ontario Junior Farmer Establishment Loan Corporation, The
- * Ontario Lottery Corporation
- * Ontario Municipal Improvement Corporation, The
- * Ontario Northland Transportation Commission (December 31)
- * Ontario Place Corporation
- Ontario Racing Commission
- Ontario Stock Yards Board (June 30)
- Ontario Training Corporation
- * Ontario Waste Management Corporation
- Pension Commission of Ontario
- Potato Financial Protection Board
- Processing-Vegetable Financial Protection Board
- Province of Ontario Council for the Arts



Agencies of the Crown

- * Provincial Judges Benefits Fund
- Public Complaints Commissioner
- * Public Trustee of the Province of Ontario, The
- Rent Review Hearings Board
- Soldiers' Aid Commission
- St. Clair Parkway Commission, The (December 31)
- * Superannuation Adjustment Fund
- Tobacco Producers' Assistance Fund

(ii) *Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.*

- Board of Community Mental Health Clinic, Guelph
- Clarke Institute of Psychiatry
- * Niagara Parks Commission, The (October 31)
- Ontario Cancer Institute, The
- Ontario Mental Health Foundation
- St. Lawrence Parks Commission, The
- * Toronto Area Transit Operating Authority
- * Workers' Compensation Board (December 31)

NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

- * Audited financial statements reproduced in 1990-91 Public Accounts, the majority appearing in Volume 2.



EXHIBIT 4

**Crown Controlled
Corporations**

year ended March 31, 1991

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

- Board of Funeral Services
- Board of Governors of The Ontario Institute for Studies in Education, The
- Board of Ophthalmic Dispensers
- Board of Radiological Technicians
- Corporation of the Improvement District of Cameron
- Corporation of the Improvement District of Gauthier
- Corporation of the Improvement District of Kingsford
- Corporation of the Improvement District of Matachewan
- Governing Board of Dental Technicians
- Governing Board of Denture Therapists
- McMichael Canadian Art Collection
- Metropolitan Toronto Convention Centre Corporation
- Moosonee Development Area Board
- Ontario Board of Examiners in Psychology
- * Ontario Centre for Resource Machinery Technology
- Ontario Cream Producers' Marketing Board
- * Ontario Energy Corporation
- Ontario Historical Studies Series
- * Ontario Hydro
- Ontario Milk Marketing Board, The
- * Ontario Mortgage Corporation
- Ontario Municipal Employees Retirement Board
- Ontario Share and Deposit Insurance Corporation
- * Ontario Teachers' Pension Plan Board
- * Ontario Transportation Development Corporation, The
- Ontario Trillium Foundation
- Ortech Corporation
- Ottawa Congress Centre
- * Public Service Pension Board
- Royal Ontario Museum, The
- Science North
- * Stadium Corporation of Ontario Limited
- Thunder Bay Ski Jumps Limited
- * Urban Transportation Development Corporation Limited

* Audited financial statements reproduced in 1990-91 Public Accounts, Volume 2.



EXHIBIT 5

Management Board Orders

Amounts Authorized and
Expended Thereunder
year ended March 31, 1991

| Ministry | Date of Order | Authorized | Expended |
|--------------------------------------|---------------|--------------------|--------------------|
| | | \$ | \$ |
| Agriculture and Food | Mar. 12, 1991 | 28,806,200 | 28,714,556 |
| | Apr. 9, 1991 | <u>9,910,000</u> | <u>8,293,520</u> |
| | | <u>38,716,200</u> | <u>37,008,076</u> |
| Attorney General | Feb. 26, 1991 | 17,688,500 | 17,656,811 |
| | Apr. 9, 1991 | <u>13,328,400</u> | <u>13,153,474</u> |
| | | <u>31,016,900</u> | <u>30,810,285</u> |
| Cabinet Office | Mar. 12, 1991 | <u>1,300,000</u> | <u>1,221,002</u> |
| | | | |
| Citizenship | Mar. 19, 1991 | 255,200 | 252,775 |
| | Apr. 9, 1991 | <u>938,300</u> | <u>924,864</u> |
| | | <u>1,193,500</u> | <u>1,177,639</u> |
| Colleges and Universities | Mar. 26, 1991 | 8,880,600 | 8,597,856 |
| | Apr. 9, 1991 | <u>500,000</u> | <u>69,347</u> |
| | | <u>9,380,600</u> | <u>8,667,203</u> |
| Community and Social Services | Feb. 19, 1991 | 524,557,200 | 524,455,606 |
| | Mar. 26, 1991 | 21,371,300 | 21,371,300 |
| | Apr. 9, 1991 | <u>52,216,000</u> | <u>51,202,308</u> |
| | | <u>598,144,500</u> | <u>597,029,214</u> |
| | | | |
| Consumer and Commercial Relations | Feb. 5, 1991 | 6,629,200 | 5,928,515 |
| | Feb. 26, 1991 | 2,520,900 | 2,333,950 |
| | Mar. 12, 1991 | 6,090,000 | 6,003,533 |
| | Mar. 26, 1991 | <u>334,900</u> | <u>43,556</u> |
| | | <u>15,575,000</u> | <u>14,309,554</u> |



Exhibit 5

| Ministry | Date of Order | Authorized | Expended |
|--|---------------|-------------------|-------------------|
| | | \$ | \$ |
| Correctional Services | Mar. 19, 1991 | 24,078,800 | 23,941,515 |
| | Apr. 9, 1991 | <u>1,514,300</u> | <u>1,025,065</u> |
| | | <u>25,593,100</u> | <u>24,966,580</u> |
| Culture and Communications | Feb. 26, 1991 | 200,000 | 194,119 |
| | Mar. 26, 1991 | 847,900 | 845,382 |
| | Apr. 9, 1991 | <u>11,344,400</u> | <u>11,314,868</u> |
| | | <u>12,392,300</u> | <u>12,354,369</u> |
| Office Responsible for Disabled Persons | Apr. 9, 1991 | <u>288,000</u> | <u>33,156</u> |
| | | | |
| Education | Feb. 12, 1991 | 8,161,300 | 5,312,273 |
| | Mar. 19, 1991 | 5,957,000 | 3,716,280 |
| | Apr. 9, 1991 | <u>275,700</u> | <u>-</u> |
| | | <u>14,394,000</u> | <u>9,028,553</u> |
| Energy | Feb. 26, 1991 | <u>2,348,000</u> | <u>2,187,488</u> |
| | | | |
| Environment | Mar. 19, 1991 | 18,853,100 | 17,458,457 |
| | Apr. 9, 1991 | <u>655,700</u> | <u>655,113</u> |
| | | <u>19,508,800</u> | <u>18,113,570</u> |
| Financial Institutions | Jan. 15, 1991 | 1,000,000 | 944,241 |
| | Feb. 12, 1991 | 2,062,400 | 1,762,506 |
| | Mar. 26, 1991 | <u>345,000</u> | <u>8,229</u> |
| | | <u>3,407,400</u> | <u>2,714,976</u> |
| Government Services | Mar. 19, 1991 | 12,044,400 | 9,831,161 |
| | Apr. 9, 1991 | <u>1,122,200</u> | <u>568,447</u> |
| | | <u>13,166,600</u> | <u>10,399,608</u> |



Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|--------------------------------------|---------------|--------------------|--------------------|
| | | \$ | \$ |
| Health | Mar. 12, 1991 | 76,468,900 | 71,063,831 |
| | Mar. 26, 1991 | 942,000 | 414,544 |
| | Apr. 9, 1991 | 41,673,500 | 38,210,713 |
| | Apr. 23, 1991 | <u>36,495,700</u> | <u>34,947,233</u> |
| | | <u>155,580,100</u> | <u>144,636,321</u> |
| <hr/> | | | |
| Housing | Apr. 9, 1991 | <u>10,433,200</u> | <u>10,357,932</u> |
| <hr/> | | | |
| Industry, Trade and Technology | Mar. 26, 1991 | 5,794,200 | 4,624,267 |
| | Apr. 9, 1991 | <u>550,600</u> | <u>278,206</u> |
| | | <u>6,344,800</u> | <u>4,902,473</u> |
| | | | |
| <hr/> | | | |
| Intergovernmental Affairs | Feb. 26, 1991 | <u>554,000</u> | <u>188,144</u> |
| <hr/> | | | |
| Labour | Jan. 22, 1991 | 1,864,500 | 1,864,343 |
| | Feb. 19, 1991 | 3,861,700 | 3,861,700 |
| | Mar. 19, 1991 | <u>5,484,700</u> | <u>5,223,521</u> |
| | | <u>11,210,900</u> | <u>10,949,564</u> |
| <hr/> | | | |
| Office of the Lieutenant Governor | Apr. 9, 1991 | <u>15,000</u> | <u>12,305</u> |
| <hr/> | | | |
| Management Board of Cabinet | Feb. 26, 1991 | 1,300,000 | 1,033,272 |
| | Mar. 26, 1991 | 985,600 | 765,321 |
| | Apr. 9, 1991 | <u>399,000</u> | <u>215,351</u> |
| | | <u>2,684,600</u> | <u>2,013,944</u> |
| <hr/> | | | |
| Municipal Affairs | Apr. 9, 1991 | <u>3,030,300</u> | <u>2,820,396</u> |



Exhibit 5

| Ministry | Date of Order | Authorized | Expended |
|---|---------------|-------------------|-------------------|
| | | \$ | \$ |
| Office Responsible for Native Affairs | Jan. 15, 1991 | <u>788,700</u> | <u>709,190</u> |
| Natural Resources | Oct. 23, 1990 | 12,000,000 | 12,000,000 |
| | Mar. 19, 1991 | 10,567,100 | 8,892,967 |
| | Mar. 26, 1991 | 30,686,400 | 30,159,149 |
| | Apr. 16, 1991 | <u>1,870,600</u> | <u>1,735,297</u> |
| | | <u>55,124,100</u> | <u>52,787,413</u> |
| Northern Development and Mines | Feb. 26, 1991 | 5,642,400 | 5,014,171 |
| | Apr. 9, 1991 | <u>14,300,000</u> | <u>13,531,670</u> |
| | | <u>19,942,400</u> | <u>18,545,841</u> |
| Office of the Premier | Jan. 15, 1991 | 701,400 | 701,400 |
| | Mar. 12, 1991 | <u>400,000</u> | <u>392,598</u> |
| | | <u>1,101,400</u> | <u>1,093,998</u> |
| Revenue | Mar. 19, 1991 | 5,417,100 | 4,776,515 |
| | Mar. 26, 1991 | <u>633,300</u> | <u>157,568</u> |
| | | <u>6,050,400</u> | <u>4,934,083</u> |
| Office Responsible for Senior Citizens Affairs | Mar. 26, 1991 | <u>251,000</u> | <u>53,344</u> |
| Solicitor General | Mar. 12, 1991 | 10,919,000 | 10,728,151 |
| | Apr. 9, 1991 | <u>2,095,000</u> | <u>1,818,390</u> |
| | | <u>13,014,000</u> | <u>12,546,541</u> |
| Tourism and Recreation | Mar. 19, 1991 | 7,737,400 | 7,699,832 |
| | Apr. 16, 1991 | <u>1,960,000</u> | <u>1,846,141</u> |
| | | <u>9,697,400</u> | <u>9,545,973</u> |



Management Board Orders

| Ministry | Date of Order | Authorized | Expended |
|--|---------------|----------------------|----------------------|
| | | \$ | \$ |
| Transportation | Jan. 29, 1991 | 10,000,000 | 10,000,000 |
| | Mar. 12, 1991 | 21,775,000 | 21,775,000 |
| | Mar. 19, 1991 | 9,529,800 | 9,510,979 |
| | Mar. 26, 1991 | 48,889,000 | 48,620,355 |
| | Apr. 9, 1991 | 3,941,500 | 3,820,087 |
| | Apr. 23, 1991 | <u>54,500,000</u> | <u>54,500,000</u> |
| | | <u>148,635,300</u> | <u>148,226,421</u> |
| <hr/> | | | |
| Treasury and Economics | Feb. 26, 1991 | <u>3,027,300</u> | <u>2,308,341</u> |
| <hr/> | | | |
| Office Responsible for Women's Issues | Mar. 19, 1991 | <u>130,700</u> | <u>95,378</u> |
| <hr/> | | | |
| Total Management Board Orders | | <u>1,234,040,500</u> | <u>1,196,748,875</u> |



EXHIBIT 6

Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

(See Note)

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|---|----------------|--|
| <u>RESOLVED AS AT DATE OF PREPARATION OF 1991 AUDITOR'S REPORT</u> | | |
| <i>CROSS-MINISTRY AND SPECIAL REVIEWS</i> | | |
| 1989 | 2.5 | Purchasing of government consulting services. <ul style="list-style-type: none"> • Substantially implemented. |
| 1989 | 2.7 | Government travel expenditures. <ul style="list-style-type: none"> • Substantially implemented. |
| 1990 | 2.5 | Government collections of accounts receivable. <ul style="list-style-type: none"> • Substantially implemented. |
| <i>MINISTRIES</i> | | |
| Attorney General | | |
| 1989 | 3.2 | Poor utilization and monitoring of district courtrooms and staff. <ul style="list-style-type: none"> • In process of implementation. |
| Community and Social Services | | |
| 1989 | 3.3 | Inadequate monitoring of child care payments, Children's Services Activity. <ul style="list-style-type: none"> • In process of implementation. |
| 1989 | 3.4 | Matters of concern, Children's Aid Societies. <ul style="list-style-type: none"> • In process of implementation. |
| Correctional Services | | |
| 1989 | 3.5 | Impediments to probation enforcement and effective rehabilitation, Community Services Activity. <ul style="list-style-type: none"> • Partially implemented. |
| 1989 | 3.6 | Parole decisions reasonably effective, Ontario Board of Parole. <ul style="list-style-type: none"> • Substantially implemented. |
| 1990 | 3.5 | Management information systems. <ul style="list-style-type: none"> • Substantially implemented. |



Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|--|----------------|--|
| Government Services | | |
| 1989 | 3.7 | Improved practices required, management of leased accommodation. <ul style="list-style-type: none"> • In process of implementation. |
| 1989 | 3.8 | Repair procedures not followed and services not acquired economically. <ul style="list-style-type: none"> • Substantially implemented. |
| Health | | |
| 1990 | 3.12 | Use of information technology consultants. <ul style="list-style-type: none"> • In process of implementation. |
| Natural Resources | | |
| 1989 | 3.11 | Better controls and enforcement required, Fisheries and Wildlife Management Activities. <ul style="list-style-type: none"> • Partially implemented. |
| Revenue | | |
| 1989 | 3.12 | Observations on audit and revenue control systems, Retail Sales Tax Branch. <ul style="list-style-type: none"> • Partially implemented. |
| Transportation | | |
| 1989 | 3.13 | Deficiencies noted in Driver and Vehicle Registration Systems. <ul style="list-style-type: none"> • Substantially implemented. |
| 1989 | 3.14 | Opportunities for improvement - Examination, Inspection and Enforcement Activity. <ul style="list-style-type: none"> • Substantially implemented. |
| <i>CROWN AGENCIES</i> | | |
| Liquor Licence Board of Ontario | | |
| 1990 | 3.16 | Insufficient inspection activity and other matters. <ul style="list-style-type: none"> • Partially implemented. |



Exhibit 6

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|--|----------------|---|
| The Public Trustee of the Province of Ontario | | |
| 1990 | 3.19 | Inadequate safeguarding of valuables. <ul style="list-style-type: none"> • Partially implemented. |
| The Royal Ontario Museum | | |
| 1988 | 4.7 | Improved controls and data security recommended. <ul style="list-style-type: none"> • Implemented. |
| <u>TO BE REVIEWED IN SUBSEQUENT YEARS*</u> | | |
| <i>CROSS-MINISTRY AND SPECIAL REVIEWS</i> | | |
| 1989 | 2.6 | Government overtime payments. |
| 1990 | 2.6 | Government vehicle fleet administration. |
| <i>MINISTRIES</i> | | |
| Community and Social Services | | |
| 1990 | 3.2 | Inadequate monitoring, ministry facilities for the developmentally handicapped. |
| 1990 | 3.3 | Inadequate monitoring of agencies for the developmentally handicapped. |
| 1990 | 3.4 | Inadequate procedures for monitoring homes for the aged. |
| Education | | |
| 1990 | 3.6 | Financial accountability frameworks for grants to school boards. |
| Government Services | | |
| 1990 | 3.7 | Observations on computer services and security, Toronto Development Centre. |
| Health | | |
| 1989 | 3.9 | Deficiencies in funding and monitoring of operations, Land Ambulance Services. |
| 1990 | 3.9 | Improvements required in monitoring nursing home services. |
| 1990 | 3.10 | Concerns with access to extended care beds. |



Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|---|----------------|--|
| 1990 | 3.11 | Opportunities to improve economy, Home Care Assistance. |
| 1990 | 3.13 | OHIP billings adequately monitored, Provider Services Branch. |
| Intergovernmental Affairs | | |
| 1990 | 3.14 | Concerns over information technology purchases. |
| Solicitor General | | |
| 1990 | 3.15 | Observations on the Ontario Provincial Police Field Operations and Quartermaster Stores. |
| <i>CROWN AGENCIES</i> | | |
| Office of the Assembly | | |
| 1990 | 3.17 | Opportunities for travel cost savings. |
| Ontario Cancer Treatment and Research Foundation | | |
| 1990 | 3.18 | Overseas recruitment expenditure. |

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 6 of the 1990 Auditor's Report.
- (b) contained in the body of the 1990 Auditor's Report.

* The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.



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